92-2041

No. _____

Supreme
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In The

Supreme Court of the United States

October Term, 1992

Swarovski International Trading Corporation, A.G., Swarovski Management and Consulting, A.G., D. Swarovski & Co., Swarovski Aktiengesellschaft, and Swarovski America Limited,

Petitioners,

versus

Ebeling & Reuss, Ltd. t/a Ebeling & Reuss Company,

Respondent.

Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Third Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1. Whether a federal court may enter judgment for punitive damages in the amount of a jury's answer to a single punitive damage interrogatory after that court has found, as a matter of law, that no liability exists on one or more of the causes of action for which the jury was instructed that it could award punitive damages, a question as to which the courts of appeals are in conflict.

2. Whether Swarovski's procedural due process rights, including its right to appropriate and meaningful appellate review recognized in *Pacific Mutual Life Insurance Co. v. Haslip*, 111 S. Ct. 1032, 1045 (1991), were violated by the Third Circuit's affirmance of the punitive damage award without any written opinion or explanation of reasons in support of the judgment.

3. Whether the excessive and disproportionate nature of the $16,500,000 punitive damage award, based on the claim that Swarovski fraudulently induced Ebeling & Reuss, Ltd. into an exclusive distribution contract, violated Swarovski's substantive due process rights.

PARTIES TO THE PROCEEDINGS

The parties to the proceedings below were the Petitioners Swarovski International Trading Corporation, A.G.; Swarovski Management & Consulting, A.G.; D. Swarovski & Co.; Swarovski Aktiengesellschaft; and Swarovski America Limited and Respondent Ebeling & Reuss Ltd. t/a Ebeling & Reuss Company.

Petitioners have no parent companies or subsidiaries to list pursuant to this Court's Rule 29.1.

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Petitioners Swarovski International Trading Corporation, A.G.; Swarovski Management & Consulting, A.G.; D. Swarovski & Co.; Swarovski Aktiengesellschaft and Swarovski America Limited (hereinafter jointly referred to as "Swarovski") respectfully pray that a writ of certiorari issue to review the judgment entered below by the United States Court of Appeals for the Third Circuit on April 7, 1993.

OPINIONS BELOW

This is a petition for a writ of certiorari to the United States Court of Appeals for the Third Circuit (the "Third Circuit") to review an unreported decision of that Court. The Court issued its decision in the form of a Judgment Order, which is reprinted in the Appendix at 1-2. The ruling of the Third Circuit on the Petition for Rehearing and Rehearing In Banc is not reported, and is reprinted in the Appendix at 3-4. The opinion of the district court is not reported, and is reprinted in the Appendix at 5-77.

JURISDICTION

The case below was filed in the Eastern District of Pennsylvania on the assertion by Plaintiff Ebeling & Reuss, Ltd. of diversity of citizenship under 28 U.S.C. § 1332(a) (Supp. 1991). The judgment of the United States Court of Appeals for the Third Circuit was entered on April 7, 1993. Petitioners' timely filed Petition for Rehearing and Rehearing In Banc was denied on May 17, 1993. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS INVOLVED

The Seventh Amendment to the United States Constitution provides, in relevant part:

> In Suits at common law . . . , the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any

> Court of the United States, than according to the rules of the common law.

U.S. Const. amend. VII.

The Fourteenth Amendment to the United States Constitution provides, in relevant part:

> No State shall . . . deprive any person of life, liberty, or property, without due process of law. . . .

U.S. Const. amend. XIV.

STATEMENT OF THE CASE

The instant case arose out of an alleged exclusive distribution contract between Ebeling & Reuss, Limited ("E&R"), an American company engaged in the business of distributing and marketing giftware in the United States, and the largely Austrian based Swarovski Defendants, who are engaged in the manufacture of fine crystal. *See* Rec. 2645a.[1] At trial, E&R contended that a series of oral and written communications in late 1985 and early 1986 culminated in an agreement granting E&R the exclusive right to distribute all miniature crystal figurines manufactured by Swarovski's injection molding technology. *See* Rec. 1776a, 4346a. Although the parties eventually exchanged drafts of a comprehensive written agreement, *see* Rec. 1979a; 4105-71a; 4140-52a; 4555-64a, it is undisputed that no version of the draft contracts was ever executed.

[1] The record in the United States Court of Appeals for the Third Circuit is cited herein as "Rec.".

From late 1986 through the time E&R initiated suit in June 1988, Swarovski filled E&R's purchase orders for the crystal figurines, which E&R marketed under the name "Crystal Signatures." E&R sold $60,655 of Crystal Signatures to retailers in January 1987; $106,697 in February; $135,658 in March; $85,864 in April; and $28,680 in May. *See* Rec. 3200-01a. Sales remained at the spring of 1987 level for the duration of the Crystal Signatures program. One year after the initial purchase order, E&R placed a second order, for only one-half the quantity of figurines in the first. *See* Rec. 4123-24a. A third purchase order followed several months thereafter, for one-half the quantity of figurines in the second. *See* Rec. 4199-4200a. Each order was for different figurines. No re-orders were ever placed. *See* Rec. 2490-91a.

On March 31, 1988, E&R Company, the entity with which Swarovski had been dealing in connection with the Crystal Signatures line and an unincorporated division of Alco Standard Corporation, a multi-billion dollar conglomerate, was sold in a leveraged buyout for $4.7 million, including a $1.2 million promissory note, *see* Rec. 4325-39a, to a group of investors and current officers. Following the leveraged buyout, the parties were unable to reach agreement on the proposed written contract. Based on the parties' failure to reach a comprehensive written agreement, the poor performance of the Crystal Signatures line, and the change in E&R's ownership and financial condition, Swarovski notified E&R on June 1, 1988 that it did not have Swarovski's consent to the shipment of product or the use of Swarovski's name, unless and until an agreement could be reached. *See* Rec. 4396a. On June 20, 1988, E&R filed suit.

At trial, E&R's case consisted primarily of the testimony of Michael Russo ("Russo"), one of its owner/officers, and Stephen Cook ("Cook"), E&R's expert witness on damages. Russo testified that the discussions and communications during the first half of 1986 culminated in an agreement on July 22, 1986, *see* Rec. 1855-56a; 3316a, pursuant to which E&R held the exclusive right to *all* injection molded figurines manufactured by Swarovski, *see* Rec. 2144a, for the life of the product cycle, *see id.*, a period which he defined to mean for as long as E&R "chose to continue producing it and selling it." Rec. 1856a. This agreement, Russo asserted, had been assigned to E&R, Ltd. in the buyout. In addition, Russo testified that the poor sales of the Crystal Signatures line were due to a February 2, 1987 letter of Swarovski America Ltd. (Swarovski's United States distribution subsidiary) to its retailers criticizing the E&R line and to late deliveries of merchandise by Swarovski in 1986. *See* Rec. 1918-19a; 1931-32a and 1948-49a.

With respect to damages, Cook testified that various unspecified retail stores would have spent $322 million to purchase injection molded figurines from E&R over a twelve year period. *See* Rec. 4527a. In calculating this figure, Cook relied on E&R's 1986 sales projection, which had been drafted for use in a sales presentation to Swarovski. *See infra* App. 38. Cook testified that all these sales would have resulted in a profit of $49 million to E&R in present value terms. *See* Rec. 2293-94a.

The district court sent the case to the jury in three stages. In the first stage, the jury was asked to render liability findings on E&R's common law claims, including a claim for breach of contract and multiple claims of

fraud. In the second stage, the jury was asked to make damage findings, both actual and punitive, in connection with E&R's common law claims. In the third and final stage, the jury was asked to make liability and damage findings on E&R's claims relating to unfair competition, including trademark infringement and misuse of trade secrets. The jury returned findings in favor of E&R on all claims, awarding in excess of $55,000,000 against Swarovski. *See infra* App. 5.

On August 25, 1992, the district court ruled on the post-trial motions of both parties. *See infra* App. 5-77. In its Memorandum and Order (the "Opinion"), the district court upheld the jury's findings on E&R's breach of contract and on one of its fraud claims, and entered judgment on those claims in the amount of $42,350,000, consisting of $850,000 in out-of-pocket expenses, $25,000,000 in lost profits, and $16,500,000 in punitive damages. The punitive damage figure had been returned by the jury in response to a single interrogatory premised on five separate tort claims. *See infra* App. 89.

The breach of contract claim and the sole upheld claim of fraud were closely related. On the breach of contact, the district court found that E&R "had the exclusive contractual right to market the entire product line for the life of the products." *See infra* App. 13-14. Similarly, in connection with E&R's claim of fraud, the district court found sufficient evidence that Swarovski had "misrepresented to E&R that they intended to give E&R the exclusive distribution rights to the injection molded crystal figurines line." App. 23. Although E&R argued that it had five separate and distinct claims of fraud against Swarovski, *see* Rec. 3253-56a; 3337-41a, the district court

grouped these five claims into two different categories, characterizing the first as fraud against E&R Company (Plaintiff's predecessor in interest) and the second as fraud against E&R Ltd. (the entity created in the leveraged buyout). *See infra* App. 22-26. The district court then granted the Defendants judgment notwithstanding the verdict on the second class of fraud claims.

In connection with the award of $16,500,000 in punitive damages, the district court upheld this award based on the following explanation:

> The punitive damages are not disproportionate to the nature of defendants' actions. Defendants were using their capacity to make injection molded figurines to compete with E&R, Ltd. while refusing to deliver the Disney figurines in breach of contract. *The jury also saw and obviously reacted to the arrogance of defendants' witnesses. The jury clearly found defendants' conduct outrageous as it found against defendants on all counts.*
>
> The punitive damages are not disproportionate to the nature and extent of the harm. The resulting total award of $16,500,000 in punitive damages is less than the total award of $25,850,000 in compensatory damages. Plaintiff's business was in effect destroyed by defendants' conduct; plaintiff ultimately filed for bankruptcy protection. *The award of punitive damages is not excessive even though the court will set aside the jury findings on liability for tortious interference and fraud against E&R, Ltd.* The jury determined the amount of punitive damages based on the nature of defendants' actions, not the theory of defendants' liability.

> The defendants' net worth was stipulated to be in excess of $200 million dollars. The punitive damage award of $16.5 million is less than 10% of that amount. Considering the conduct of defendants, the harm to plaintiff that defendants intended to cause to avoid the contract, and *the extreme wealth of defendants (far in excess of the amount stipulated)*, this court is not persuaded to reduce the punitive damage award further.[2]

See infra App. 46 (emphasis added).

On April 7, 1993, the United States Court of Appeals for the Third Circuit affirmed the judgment of the district court without a written opinion or explanation of reasons supporting its decision, and without adopting the Opinion of the district court. Thereafter, on May 17, 1993, the Third Circuit denied Swarovski's Petition for Rehearing and Rehearing In Banc. *See infra* App. 3-4. Again, the Third Circuit gave no explanation of reasons supporting its decision or the award of $16,500,000 in punitive damages.

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[2] The punitive damage award on the fraud claims was not reduced by the district court at all. Rather, the district court granted the Swarovski Defendants judgment notwithstanding the verdict on all of E&R's trademark and unfair competition claims. As a result, a total of $5 million in punitive damages, awarded by the jury in answer to separate interrogatories, was not included in the final judgment. *See infra* App. 45.

REASONS FOR GRANTING THE WRIT

The Third Circuit's disposition of Swarovski's appeal has created a conflict with the law of other Circuits concerning the right of a federal court to apportion punitive damages among particular causes of action when the jury did not apportion them and when certain of the tort claims upon which the award was based did not survive review. Furthermore, by employing the device of the judgment order, a summary affirmance without opinion, to confirm a judgment which includes an award of $16.5 million in punitive damages, the Third Circuit failed in its constitutionally mandated task under this Court's decision in *Pacific Mutual Life Ins. Co. v. Haslip*, 111 S. Ct. 1032 (1991), to review the punitive damage award, and thereby violated Swarovski's procedural due process rights. This failure to conduct and articulate its required review of the punitive damages has hidden significant legal deficiencies in the award. Based on these deficiencies, the punitive damage award is unconstitutionally excessive, disproportionate to the nature of Swarovski's conduct, and in violation of Swarovski's substantive due process rights.

A. The District Court Improperly Allocated the Entire Punitive Damage Award To the One Affirmed Claim of Fraud.

In answer to a single interrogatory, the jury awarded $16.5 million in punitive damages based on its liability findings on E&R's multiple claims of fraud, but it did not apportion this amount among the separate claims. *See infra* App. 89. Although the district court found all but

one of E&R's fraud claims legally insufficient to support a judgment, it nonetheless included the entire $16,500,000 in punitive damages in the judgment. The court of appeals by its Judgment Order affirmed both the holding of no liability on most of the fraud claims and the entire punitive damage award. This affirmance of the punitive damage award, in effect allocating the entire award to only one of the multiple and distinct fraud claims E&R argued to the jury in connection with punitive damages, is improper as a matter of federal law and is in conflict with the decisions of the Second, Fourth and Eleventh Circuits.

Up to the decision of the Third Circuit in this case, the courts of appeals that had faced the issue had been uniform in concluding that where a general award of punitive damages is based upon more than one cause of action, one of which is reversed, the punitive damage award must be set aside. *See Murphy Door Bed Co. v. Interior Sleep Sys.*, 874 F.2d 95, 104 (2d Cir. 1989); *Litman v. Massachusetts Mut. Life Ins. Co.*, 739 F.2d 1549, 1562 (11th Cir. 1984); *Barnes Group, Inc. v. C & C Prods., Inc.*, 716 F.2d 1023, 1034 (4th Cir. 1983). In *Litman*, the plaintiff obtained an award of punitive damages based on two claims of slander. On appeal, the Eleventh Circuit reversed judgment on one of the two claims. In light of that reversal, the Eleventh Circuit remanded the punitive damage issue to the trial court for a new trial, stating that "[t]his result is [u]navoidable in light of the fact that the jury's $250,000 punitive damage award was made in response to a single question on the special verdict form." 739 F.2d at 1562. Indeed, because punitive damages are awarded based upon a theory that outrageous conduct should be

punished, the court held that the punitive damage award could not be sustained "based partly on the perceived outrageousness of that [nonslanderous] statement." *Id.* *See also Barnes Group*, 716 F.2d at 1034 ("because the punitive damage award hinges on the liability findings that we reverse in part, we must remand on the issue of punitive damages").

Similarly, the plaintiff in *Murphy Door* obtained an award of punitive damages based on claims of trademark infringement and unfair competition. In reversing the liability finding on the trademark claim, the Second Circuit held that the award of punitive damages must be remanded because "we are unable to determine what fraction of the punitive damages award, if any, is attributable to unfair competition." 874 F.2d at 104.

This same principle has been recognized and applied by the federal courts where a general award of actual damages is based on two or more causes of action, one of which has been determined not to state a claim. In such instances, the decision on what portion of the general damage award may be attributable to a claim that has been reversed has uniformly been held to require a new trial. *See, e.g., United New York & New Jersey Sandy Hook Pilot Ass'n. v. Halecki*, 358 U.S. 613, 619 (1959); *Neubauer v. City of McAllen*, 766 F.2d 1567, 1575-77 (5th Cir. 1985); *Lyle v. Bentley*, 406 F.2d 325, 327-28 (5th Cir. 1969); *Mosley v. CIA. MAR. ADRA, S.A.*, 314 F.2d 223, 226-27 (2d Cir.), *cert. denied*, 375 U.S. 835 (1963). The rationale for this principle, identical to that employed in the context of general awards of punitive damages, was aptly explained by the Second Circuit:

> Because the jury's verdict was a general one, it is not possible to know upon which of these two alternate grounds it predicated the finding . . . necessary to support [the plaintiff's] verdict against [the defendant]. In these circumstances, it is the duty of an appellate court to examine the adequacy of both grounds. If one of the grounds is found adequate and the other inadequate as a matter of law, the judgment must necessarily be reversed since "there is no way to know that the invalid claim . . . was not the sole basis for the verdict."

Mosley, 314 F.2d at 226-27 (citations omitted). *Cf. Zant v. Stephens*, 462 U.S. 862 (1983) ("One rule derived from the *Stromberg* case is that a general verdict must be set aside if the jury was instructed that it could rely on any of two or more independent grounds, and one of those grounds is insufficient, because the verdict may have rested exclusively on the insufficient ground."); *Stromberg v. California*, 283 U.S. 359, 370 (1931).

In this case, the punitive damage award was based on multiple claims of fraud, including at least one before and one after the leveraged buy-out, *see infra* App. 46, and it was made in response to a single question in the jury's interrogatories. *Id.* at 89. These fraud claims involved separate and distinct activities on the part of Swarovski – activities ranging from an allegedly insincere promise of exclusivity, which induced plaintiff to enter the contract, to a variety of alleged post-contract frauds, including Swarovski's failure to manufacture certain Disney figurines and the withdrawal of E&R's right to use the Swarovski name in marketing Crystal Signatures. Tort liability was upheld only on the fraudulent inducement

claim; nevertheless, the district court upheld the entire punitive damage award relying explicitly on actions, like alleged improper competition and breach of contract, that could not have been part of the sole remaining fraud claim. This decision and the action of the Third Circuit in affirming it are in conflict with the well-reasoned and established precedent of other United States Courts of Appeals, and both this conflict and the Third Circuit's error warrant the grant of a writ of certiorari and correction by this Court.

The principle adhered to by the other courts of appeals – that courts may not make a judicial allocation of a damage award – is of constitutional significance. "The Seventh Amendment directs that facts decided by a jury may not be 'reexamined' by a federal court, other than 'according to the rules of the common law' ". *Mattison v. Dallas Carrier Corp.*, 947 F.2d 95, 107 (4th Cir. 1991). Accordingly, although it is generally accepted that appellate courts have the power to order either a remittitur or a new trial, they do not have the power to modify an unliquidated damage award in a manner that usurps the power of the jury. *See Pincus v. Pabst Brewing Co.*, 752 F. Supp. 871, 874-75 (E.D. Wis. 1990) (citing *McKinnon v. City of Berwyn*, 750 F.2d 1383, 1392 (7th Cir. 1984)). *See also Browning-Ferris Indus. of Vermont, Inc. v. Kelco Disposal Inc.*, 492 U.S. 257, 278-79 (1989) ("In reviewing an award of punitive damages, the role of the District Court is to determine whether the jury's verdict is within the confines set by state law, and to determine, by reference to federal standards developed under Rule 59, whether a new trial or remittitur should be ordered."); *Dunn v. Owens-Corning Fiberglass*, 774 F. Supp. 929, 951 (D.V.I.

1991), *aff'd. in part, vacated in part, Dunn v. Hovic*, 1992 WL 228875, 1992 U.S. App. LEXIS 22749 (3d Cir.), *rehearing granted and opinion vacated* (October 8,1992) (recognizing that the court "cannot simply substitute its own judgment as to the appropriate amount of punitive damages without infringing upon plaintiff's constitutional right to a jury trial"); *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1546 (Fed. Cir. 1983) (court may not substitute its judgment for that of the jury, because doing so would effectively be a denial of the right to a trial by jury).

In one particularly instructive case, the jury returned a verdict in which it found liability, on multiple theories, against a number of defendants, but returned a general verdict as to damages. *Rheuport v. Ferguson*, 819 F.2d 1459 (8th Cir. 1987). Thereafter, the district court granted judgment notwithstanding the verdict to several of the defendants and on several of the claims, and allocated the jury's general damage award among the remaining defendants and claims. The Eighth Circuit held that the district court's allocation of damages denied defendants their right to a trial by jury as to damages. *Id.* at 1464. The Eighth Circuit explained this holding as follows:

> The fundamental problem with the judgment as it stands before us is that we are unable to determine how much the jury awarded the plaintiffs on each of the several counts. We cannot say with assurance that the jury awarded any particular amount for the due process violation, intentional infliction of emotional distress, conversion, or destruction of chattels. The jury itself did not find each defendant liable on each of these claims. Moreover, the district court eliminated liability for some defendants on

> post-trial motions, thus exacerbating the need for a more explicit damage verdict.
>
> To summarize, damages in a jury trial must be found and apportioned by juries, not judges.

Id.

Petitioners are acutely aware of the power and the obligation of both the trial and appellate courts to review the punitive damage award in this case in accordance with the requirements of Pennsylvania law and the federal constitutional restrictions on punitive damage verdicts. *See Pacific Mut. Life Ins. Co. v. Haslip*, 111 S. Ct. 1032 (1991). Indeed, among the questions presented in this Petition are the Third Circuit's failures to satisfy its review obligations under this Court's decision in *Haslip*. However, the right and duty to review a punitive damage award, to require either remittitur or new trial in the event of excessiveness, and to render judgment for the defendant in the event of a want of substantial evidence, does not carry with it the power to function as the jury and allocate the punitive damages among causes of action, purporting, in effect, to read the jury's collective mind. It has been recognized that "[a]n assessment by a jury of the amount of punitive damages is an inherent and fundamental element of the common-law right to trial by jury. Therefore, . . . the seventh amendment guarantees the right to a jury determination of the amount of punitive damages. . . . " *Defender Indus., Inc. v. Northwestern Mut. Life Ins. Co.*, 938 F.2d 502, 507 (4th Cir. 1991). Accordingly, by determining that the entire punitive damage award was premised on the sole affirmed claim of fraud, and was not in any way based on or related to activities going exclusively to the four other

claims of fraud that E&R argued to the jury, both the district court and Third Circuit improperly crossed into the realm of matters which are reserved for the jury, in violation of Swarovski's rights under the Seventh Amendment.

The issue of judicial allocation of a federal jury's general damage award is one of procedural fairness and the effect to be given to a federal judgment. As such, it is necessarily a question of federal law and state law is not controlling, even in those instances in which state law provides the other grounds of decision. *See Barnes Group*, 716 F.2d at 1034; *Williams v. Powers*, 135 F.2d 153, 156 (6th Cir. 1943). *Cf. Browning-Ferris*, 492 U.S. at 278-79 ("Federal law, however, will control on those issues involving the proper review of the jury award by a federal district court and court of appeals."); *Donovan v. Penn Shipping Co.*, 429 U.S. 648, 649-50 (1977) ("The proper role of the trial and appellate courts in the federal system in reviewing the size of jury verdicts is, however, a matter of federal law."). The Third Circuit's affirmance of the district court's judgment for punitive damages based at least in part on claims which have been held to state no cause of action is directly contrary to decisions of the Second, Fourth and Eleventh Circuits on a question of federal law, and is similarly contrary to the rule that is uniformly applied in the analogous situation of general awards of actual damages based on multiple causes of action. Consequently, the Court should grant review in this case to resolve the conflict among the Circuits.

B. The Third Circuit's Affirmance Of The $16,500,000 Punitive Damage Award Without Opinion Violates Swarovski's Procedural Due Process Rights.

This Court recently made clear that appellate courts reviewing judgments for punitive damages are constitutionally obligated to make an independent review of the punitive damage awards, both as to whether the evidence supports such an award in any amount, and if so, whether the amount awarded is greater than that reasonably necessary to punish and deter. *Haslip*, 111 S. Ct. at 1044-45. In *Haslip*, the Court emphasized that there were three vital layers of safeguards provided by Alabama's scheme for imposing punitive damages, one of which was appellate review pursuant to defined and specific criteria. *Id.* at 1043-46. As the Court observed, Alabama's scheme provided an additional and necessary check on the jury's and trial court's discretion on punitive damages by requiring the appellate court to undertake a comparative analysis of the award, and by thereafter requiring that court to apply "the detailed substantive standards it has developed for evaluating punitive awards." *Id.* at 1045. This review, the Court concluded, makes "certain that the punitive damages are reasonable in their amount and rational in light of their purpose to punish what has occurred and to deter its repetition." *Id.* In addition, Alabama's scheme further called for the appellate court to apply a defined set of criteria "for determining whether a punitive damage award is reasonably related to the goals of deterrence and retribution." *Id.* The Court concluded that "application of these standards . . . imposes a sufficiently definite and meaningful constraint

on the discretion of Alabama fact finders in awarding punitive damages."[3] *Id.*

In this case, the Third Circuit affirmed the entire $16,500,000 award of punitive damages without any written opinion or reasoned explanation of the punitive damage award. As Swarovski pointed out in its Petition for Rehearing and Rehearing In Banc, *see infra* App. 114-16, such an affirmance constituted a judicial abdication of the Third Circuit's obligation to review the punitive damage award, in violation of Swarovski's procedural due process rights. Contrary to the meaningful review conducted by the Alabama Supreme Court in *Haslip*, the Third Circuit in this case failed to articulate any rationale in support of the large award of punitive damages. Based on that failure, it is simply impossible to determine whether the Third Circuit conducted an appropriate review of the punitive damage award, the standard under which that review was conducted[4], and the basis for the conclusions reached by the Third Circuit. This failure undercuts the

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[3] Through application of the factors adopted by the Alabama Supreme Court, the Court concluded that "Alabama plaintiffs do not enjoy a windfall because they have the good fortune to have a defendant with a deep pocket." *Id.* at 1045. In stark contrast, the jury in this case was permitted to hear evidence on Swarovski's net wealth. Indeed, in justifying the award of punitive damages in this case, the district court gives great import to the "extreme wealth of defendants (far in excess of the amount stipulated)." *See infra* App. 46.

[4] The standard of review of punitive damages on the common law claims is provided by the law of Pennsylvania, to the extent it comports with and satisfies the requirements of due process.

very legitimacy of a punitive damage award, the constitutionality of which the Court has explicitly conditioned on appropriate and meaningful appellate review.[5]

Petitioners recognize the time constraints and demands that the federal and state judiciaries are subject to, and the necessity of deciding certain appropriate cases without a written opinion. It is, however, critical to determine under what circumstances those conditions occur. The reasons for limiting the circumstances in which a court of appeals will dispense with a written opinion were well-explained when that procedure was first being implemented:

> Opinions are to serve a number of purposes at least two of which are highly significant. One is that an articulated discussion of the factors, legal, factual or both, which lead the Court to one rather than to another result, gives strength to the system, and reduces, if not eliminates, the easy temptation or tendency to ill-considered or even arbitrary action by those having the awesome power of almost final review. . . .
>
> * * *
>
> The Court recognizes that it must – the word is must – never apply the Rule to avoid making a difficult or troublesome decision or to conceal divisive or disturbing issues. This means that

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[5] Indeed, to the extent that punitive damages are in large part awarded to deter future conduct, *see, e.g., Haslip*, 111 S. Ct. at 1044, the absence of any written explanation as to why punitive damages were warranted in this case further undercuts the rationale supporting the award of punitive damages, and thus their legitimacy.

> while [summary affirmance] should make a real contribution toward the goal of avoiding delays which can often amount to a denial of justice, it must be sparingly used.

National Labor Relations Bd. v. Amalgamated Clothing Workers, 430 F.2d 966, 972 (5th Cir. 1970) (Brown, C.J.).

The Fifth Circuit's admonition necessarily suggests that the procedure for affirming without an opinion will be confined to cases involving well-established legal propositions and/or involve minor legal consequences to the litigants. It is inappropriate, under *Haslip*, to utilize this procedure in a litigation in which the jury has awarded $16,500,000 in punitive damages, the constitutionality of which is dependent upon appropriate appellate review.[6] Accordingly, this Court should grant certiorari here in order to clarify and define the nature of

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[6] The notion that a court should be obligated to provide a written articulation of reasons in support of its decision is neither novel, nor is it onerous in the context of punitive damage awards. The Court has recognized that punitive damage awards are quasi-criminal in nature. *See Haslip*, 111 S. Ct. at 1044 (citing *Smith v. Wade*, 461 U.S. 30, 59 (1983) (Rehnquist, J., dissenting)). Punitive damages are imposed for purposes of retribution and deterrence, two functions also served by criminal penalties.

In the analogous context of imposing criminal penalties, the federal courts must provide an articulation of "reasons for [the] imposition of the particular sentence." 18 U.S.C. § 3553(c). Indeed, the more extreme the penalty, the greater the required degree of specificity. *See, e.g., United States v. Beaulieu*, 900 F.2d 1537, 1540-41 (10th Cir.), *cert. denied*, 497 U.S. 1009 (1990); *United States v. Terry*, 916 F.2d 157, 160-61 (4th Cir. 1990); *United States v. Delvecchio*, 920 F.2d 810, 813-14 (11th Cir. 1991); *United States v. Sanchez*, 933 F.2d 742, 745 (9th Cir. 1990); *United States v. Himsel*, 951 F.2d 144, 147 (7th Cir. 1991).

the appellate review that is required when a court of appeals considers an award of punitive damages.

C. The Excessive And Disproportionate Nature Of The $16,500,000 Punitive Damage Award Violates Swarovski's Substantive Due Process Rights.

By failing to articulate the basis for the punitive damage award, the Third Circuit has hidden significant legal deficiencies with the award that demonstrate that it is unconstitutionally excessive, disproportionate to the nature of Swarovski's conduct, and in violation of Swarovski's substantive due process rights. The sole grounds which the district court listed in support of its requisite finding of outrageous conduct on the part of Swarovski which might justify an award of punitive damages were that Swarovski's witnesses were arrogant and that the jury found against Swarovski on all counts. App. 46. Neither "fact" is a sufficient basis on which to support the award of $16,500,000 in punitive damages. Any arrogance on the part of Swarovski's witnesses is completely irrelevant to an award of punitive damages. Punitive damages can only be awarded based on tortious conduct of a defendant, not on the personality traits of its witnesses at trial. However desirable it might be to deter the "arrogance" of witnesses in the courtroom, that is not a matter committed to the realm of punitive damages under *Haslip* or any state law of damages, including that of Pennsylvania. Similarly, a finding of liability, even on all counts, is not evidence of outrageous conduct. *See Tunis Bros. Co. v. Ford Motor Co.*, 952 F.2d 715, 741 (3d Cir. 1991), *cert. denied*, 112 S. Ct. 3034 (1992); *Smith v. Renaut*, 564 A.2d 188, 193 (Pa. 1989). Rather, there must be acts of

malice, vindictiveness or wholly wanton disregard of the rights of others, in addition to that which supported the finding of fraud liability and the award of compensatory damages, in order to support an award of punitive damages. *Tunis Bros.*, 952 F.2d at 741.

These deficiencies in the district court's justifications for the punitive damage award are in this case exacerbated by the Third Circuit's failure to articulate its review of the punitive damage award. No court in this matter has ever given a viable reason to justify the award of $16,500,000 in punitive damages. Clearly, a finding of fraud without a sufficient basis for a finding of outrageous conduct does not merit an award of punitive damages. *See Hughes v. Consol-Pennsylvania Coal Co.*, 945 F.2d 594, 616 (3d Cir. 1991), *cert. denied*, 112 S. Ct. 2300 (1992).

In this regard, two points are particularly important. First, this case arose out of a business tort, not involving loss of life or limb or threat to public health and safety. *Cf. Alexander & Alexander, Inc. v. B. Dixon Evander & Assocs.*, 596 A.2d 687, 719 (Md. Ct. Spec. App. 1991), *cert. denied*, 605 A.2d 137 (Md. 1992) ("This was, at bottom, a commercial dispute between two business competitors."); *Medical Mut. Liab. Ins. Soc'y v. B. Dixon Evander & Assocs.*, 609 A.2d 353, 369 (Md. Ct. Spec. App.), *cert. denied*, 614 A.2d 973 (1992) (holding that the "commercial dispute that triggered the awards of punitive damages was not 'very high on the scale of reprehensibility' "). Rather, the award of punitive damages in this case is premised solely on a claim of fraudulent inducement into a contract – and E&R has already been awarded future lost profits of $25,000,000 on the contract. To nearly double that already staggering sum serves no legitimate purpose of punitive

damages and grants to E&R a "windfall" because it had "the good fortune to have a defendant with a deep pocket." *Haslip*, 111 S. Ct. at 1045.[7]

In addition, in the face of a $200,000,000 stipulated net worth for Swarovski, the district court upheld a punitive damage award amounting to 8.25% of that figure, a number far in excess of the usual court approved percentage. *See Cash v. Beltmann N. Am. Co.*, 900 F.2d 109, 111 n.3 (7th Cir. 1990) ("[A] typical ratio for a punitive damages award to a defendant's net worth [is] around one percent."). In entering judgment on this award, the district court improperly relied on an unsupported "hunch" that the Swarovski's "extreme wealth" was "far in excess of the amount stipulated." *See infra* App. 46.

The holding in *Haslip*, requiring that all courts must give serious content and consideration to the Due Process Clause when reviewing and approving punitive damage awards has not been embraced by all the courts bound to apply its teachings. This failure is vividly demonstrated by the Third Circuit's affirmance of the $16.5 million punitive damage award in this case without acknowledging either the standards for review of punitive damage awards under Pennsylvania law or the constraints of due process. In apparent recognition of the failure of many state and lower federal courts to harmonize their practices on the review of punitive damage awards with the teaching of *Haslip* – a circumstance of which this case is an additional example – this Court took for review this

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[7] E&R's actual out-of-pocket damages were found to be only $850,000, slightly more than one-twentieth (1/20) of the punitive damage award.

term the questions presented in *TXO Production Corp. v. Alliance Resources Corp., et al.*, No. 92-479. Presumably, by the time this Petition is read, the Court's Opinion in *TXO* will have been announced. Regardless of the fate of the $10,000,000 punitive damage award at issue in *TXO*, the summary affirmance by the Third Circuit in this case of a fortune[8] in punitive damages, without any articulation of the grounds therefor, simply cannot be sanctioned as part of a constitutionally acceptable punitive damage scheme, if *Haslip* is to have any meaning at all. Accordingly, the Court should grant review in this case to make plain that *Haslip* and the Due Process Clause require genuine constraints on jury and judicial discretion and that meaningful and articulated appellate review, with defined criteria, is an important component of any constitutionally sound punitive damage scheme.

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[8] Questions of ratio should not blind the courts to an appreciation of the shocking absolute size of a punitive damage award. Indeed, where a plaintiff in a purely commercial dispute is already receiving monetary compensation for a monetary loss and, as here, the defendant did not unjustly enrich itself on the transaction, so that a punitive damage award could serve as a form of disgorgement, a large punitive damage award in addition to a large award of compensatory damages would appear to advance none of the legitimate purposes of punitive damages, but merely provide a jackpot for the plaintiff.

CONCLUSION

For the reasons set out above, the petition for writ of certiorari should be granted.

Respectfully submitted,

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Counsel for Petitioners

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June 23, 1993

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 92-1723, 92-1746

EBELING & REUSS, LTD.
t/a EBELING & REUSS COMPANY,

Appellant in 92-1723

v.

SWAROVSKI INTERNATIONAL TRADING CORPORATION A.G.; D. SWAROVSKI & CO.; SWAROVSKI AMERICA LIMITED; SWAROVSKI AKTIENGESELLSCHAFT

Appellants in 92-1746

Appeal from the United States District Court
for the Eastern District of Pennsylvania
D.C. Civil Docket No. 88-04878
(District Judge: Honorable Norma L. Shapiro)

Argued: March 16, 1993
Before: STAPLETON, ROTH and LEWIS, *Circuit Judges*

JUDGMENT ORDER

After consideration of all contentions raised by appellants,

IT IS ADJUDGED AND ORDERED that the judgment of the district court be and is hereby affirmed.

Each appellant shall bear the costs of its own appeal.

BY THE COURT.

/s/ Illegible
Circuit Judge

Attest:

/s/ P. Douglas Sisk
P. Douglas Sisk, Clerk

DATED: APR 7 1993

UNITED STATES COURT OF APPEALS
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EBELING & REUSS, LTD.
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Appellant in 92-1723

v.

SWAROVSKI INTERNATIONAL TRADING CORPORATION A.G.; D. SWAROVSKI & CO.; SWAROVSKI AMERICA LIMITED; SWAROVSKI AKTIENGESELLSCHAFT

Appellants in 92-1746

Before: SLOVITER, *Chief Judge*, BECKER, STAPLETON, MANSMANN, GREENBERG, HUTCHINSON, SCIRICA, COWEN, NYGAARD, ALITO, ROTH and LEWIS, *Circuit Judges*

SUR PETITION FOR REHEARING

The petition for rehearing filed by appellants in 92-1746 in the above-entitled case having been submitted to the judges who participated in the decision of this court and to all other available circuit judges of the circuit in regular, active service, and no judge who concurred in the decision having asked for rehearing, and a majority of the circuit judges of the circuit in regular active service

not having voted for rehearing by the court *in banc,* the petition for rehearing is hereby denied.

BY THE COURT.

/s/ Illegible
Circuit Judge

DATED: MAY 17 1993

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,	:	CIVIL ACTION (Filed Aug. 24, 1992)
v.	:	
SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., individually and d/b/a D. SWAROVSKI & CO. and SWAROVSKI AMERICA LIMITED and SWAROVSKI AKTIENGELSELLSCHAFT	:	NO. 88-4878

MEMORANDUM AND ORDER

NORMA L. SHAPIRO, J. AUGUST 24, 1992

I. INTRODUCTION

Plaintiff Ebeling & Reuss, Ltd. ("E&R, Ltd.") was awarded a jury verdict in excess of $55 million against defendants Swarovski International Trading Corporation, A.G., individually, and doing business as D. Swarovski & Co., Swarovski America Limited, and Swarovski Aktiengelsellschaft (collectively referred to as "Swarovski"), for breach of contract, promissory estoppel, tortious interference with contract, fraud, civil conspiracy, trademark infringement, unfair competition, and misappropriation of a trade secret. Pending are both parties' numerous post trial motions for judgment notwithstanding the verdict, to alter or amend the verdict, new

trial, and additur as well as defendants' motion for disqualification and plaintiff's motions for contempt and attorneys' fees.

Jurisdiction arises under 28 U.S.C. § 1332; plaintiff Ebeling & Reuss, Ltd. is a Pennsylvania corporation with its principal place of business in Devon, Pennsylvania; defendants Swarovski International Trading Corporation, A.G., D. Swarovski & Co., and Swarovski Aktiengelsellschaft are incorporated under the laws of Switzerland, Austria, and Liechtenstein respectively; defendant Swarovski America Limited is a corporation incorporated under the laws of Rhode Island with its principal place of business in Cranston, Rhode Island. The parties agree that Pennsylvania law applies.

In response to special interrogatories,[1] the jury found in favor of Ebeling & Reuss, Ltd. on all claims. On the E&R, Ltd. claims for breach of contract, tortious interference with contract, promissory estoppel, and fraud, the jury awarded $33,850,000 in compensatory damages ($850,000 in actual damages, $25 million in lost profits, and $8 million in harm to reputation) – and $16,500,000 in punitive damages. On the E&R, Ltd. trademark infringement and unfair competition claims, the jury awarded $0 in compensatory damages but $2,500,000 in punitive

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[1] The special interrogatories answered by the jury are attached. The interrogatories answered on liability for contract, promissory estoppel, tortious interference with contract, fraud, and conspiracy are attached as Appendix A. The interrogatories on damages for those claims are attached as Appendix B. The interrogatories on trademark, unfair competition, and misappropriation of trade secret are attached as Appendix C.

damages. On the E&R, Ltd. claim for misappropriation of a trade secret, the jury awarded $291,364 in compensatory damages and $2,500,000 in punitive damages. The court entered judgment in favor of E&R, Ltd. in the amount of $55,641,364.

Defendants' motions for judgment notwithstanding the verdict and to alter or amend the verdict will be granted in part and denied in part. Defendants' motion for new trial will be denied. Plaintiff's motions for new trial, to amend the verdict, for additur, and for attorneys' fees will be denied. The court will reserve ruling on plaintiff's motions for contempt and attorneys' fees on the contempt claim to allow plaintiff to inform the court whether it wishes to pursue those motions.

II. FACTUAL BACKGROUND

This action arose out of the Swarovski defendants' alleged repudiation of an agreement to permit Ebeling & Reuss Company to market and distribute miniature, injection molded, full lead, crystal figurines manufactured by D. Swarovski & Co. The relationship between Ebeling & Reuss and D. Swarovski began in 1986 when Ebeling & Reuss Company ("E&R Co.") was still an unincorporated division of Alco Standard Corporation. The Swarovski business entities are all related corporations owned by the Swarovski family and managed by a joint board called the Beirat.

Helmut Swarovski, a Beirat member, invented a new technology for producing injection molded crystal figurines. Helmut Swarovski, working with Peter Yenawine, a designer and long time friend, and Yenawine's company,

Pynn Corporation, designed figurines for manufacture with this new technology.

Early in 1986, Peter Yenawine introduced E&R Co. as a potential distributor for these injection molded crystal figurines to Helmut Swarovski. Swarovski and E&R Co. entered into a distribution agreement through a series of written and oral communications. Swarovski first dealt with Allen Goeldner, President of E&R Co., and thereafter with Michael Russo, initially Vice President, then President, of E&R Co. and finally President and part owner of E&R, Ltd. Most of the early dealings between E&R Co. and Swarovski were conducted through Peter Yenawine and his attorney, Stephen Palmer. In 1987, Ebeling & Reuss, Co. and Swarovski negotiated an integrated written contract to formalize their relationship; the contract was drafted but never signed by Swarovski.

Ebeling & Reuss, Co. marketed and distributed the line under its registered trademark, "Crystal Signatures," in packaging provided by Swarovski with the legend, "Crafted by D. Swarovski & Co., Wattens." In February, 1987, Lawrence Metcalfe, President of Swarovski America Limited ("SAL"), mailed a letter to SAL customers who sold Silver Crystal, a line of faceted crystal figurines also manufactured by Swarovski; his letter stated that Ebeling & Reuss' Crystal Signatures had no connection with SAL, and suggested that Ebeling & Reuss was not authorized to use the "Swarovski" name. However, the D. Swarovski & Co. business relationship with E&R Co., and then E&R, Ltd., continued into 1988; E&R Co. placed orders with Swarovski for six Yenawine designed figurine series and negotiated a license agreement with Walt Disney & Co. to distribute injection molded Disney figurines.

In late 1987, Alco Standard had decided to sell its E&R division. Russo and other investors formed E&R, Ltd. to purchase E&R Co. E&R, Ltd. purchased E&R Co. from Alco Standard on March 31, 1988; the agreement of sale assigned the Disney license agreement and the Swarovski agreement concerning Crystal Signatures to E&R, Ltd.[2] However, on June 1, 1988, SAL's attorney wrote Ebeling & Reuss, Ltd. that E&R, Ltd. could not ship Swarovski product or use the Swarovski name in any way until the parties reached a mutually satisfactory written agreement. In the Fall of 1988, Zales, an SAL subsidiary, began selling Swarovski injection molded crystal figurines as Zales' "Crystal Collectibles."

On June 20, 1988, E&R, Ltd. filed this Complaint and moved for a preliminary injunction. Hearings on the motion were held on July 14, 26, and 27, 1988. On July 29, 1988, the court ordered defendants to undertake, as expeditiously as possible, all necessary steps to provide plaintiff with 24 first quality samples of eight Crystal Signatures Disney character figurines, with a base for

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[2] The agreement states in pertinent part:

2. Alco hereby sets over, transfers, assigns, sells and otherwise conveys fully to E&R, free and clear of all liens and encumbrances;

* * *

g. Any and all rights benefits and obligations to contracts to which Alco and/or E&R Co. is a party concerning the operations of E&R Co. including but not limited to that certain license agreement with Walt Disney Company, and that certain agreement with D. Swarovski and Company concerning Crystal Signatures.

each, by August 30, 1988. The court denied defendants' motion for a stay pending appeal or, in the alternative, to modify the preliminary injunction of July 29, 1988. On December 30, 1988, the Court of Appeals affirmed this court's Order granting a preliminary injunction. *Ebeling & Reuss, Ltd. v. Swarovski Intern. Trading Corp.*, 866 F.2d 1409 (3d Cir. 1988).

Defendants failed to produce the Disney figurines for E&R, Ltd. by August 30, 1988 in violation of the preliminary injunction. A hearing on plaintiff's motion to hold defendants in contempt was held on September 14, 15 and October 6, 1988. The court deferred decision on the motion for contempt until after trial on the merits. New counsel for defendants filed a motion for disqualification of this judge that was denied on January 30, 1990. Defendants' motion for summary judgment, filed January 18, 1990, was denied on June 4, 1990 and a three week jury trial, concluded June 21, 1990, resulted in a verdict for plaintiff on all counts.

Pursuant to Federal Rule of Civil Procedure 50, defendants filed post trial motions for judgment notwithstanding the verdict, to alter or amend the verdict and for a new trial. Plaintiff filed motions for attorneys' fees, a motion to amend the verdict, a motion for additur, and a conditional motion for a new trial.[3]

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[3] The court delayed ruling on the outstanding motions for some time because the parties were engaged in settlement negotiations.

III. DEFENDANTS' MOTIONS

A. JUDGMENT NOTWITHSTANDING THE VERDICT

A judgment notwithstanding the verdict is appropriate only where, as a matter of law, the jury's verdict was not supported by sufficient evidence to allow reasonable jurors to arrive at the verdict. *Link v. Mercedes-Benz of North America*, 788 F.2d 918, 921 (3d Cir. 1986). *Berndt v. Kaiser Aluminum & Chemical Sales, Inc.*, 789 F.2d 253 (3d Cir. 1986). To grant judgment notwithstanding the verdict, the court must find as a matter of law that "the record is critically deficient of the minimum quantity of evidence from which the jury must reasonably afford relief." *Simone v. Golden Nugget Hotel and Casino*, 844 F.2d 1031, 1034 (3d Cir. 1988). The party prevailing at trial is entitled to the benefit of all reasonable inferences that can be drawn from the evidence in determining whether there is any rational basis for the verdict. *Bhaya v. Westinghouse Electric Corp.*, 832 F.2d 258, 259 (3d Cir. 1987), *cert. denied*, 468 U.S. 1004 (1989). Therefore, this court must determine only whether the evidence and the justifiable inferences in favor of the prevailing party afford any rational basis for the verdict.

Defendants' reasons why judgment notwithstanding the verdict should be granted are considered below.

1. Contract

a. Contract – E&R, a Division of Alco Standard, and Swarovski

Defendants concede the existence of a contract between Swarovski and E&R Co., an unincorporated division of Alco Standard Corp., to distribute Crystal Signatures. However, defendants contended the contract was limited to those Yenawine-designed crystal figurines for which E&R Co. submitted purchase orders to Swarovski. E&R Co.'s successor and assignee, E&R, Ltd. claimed at trial that the contract was for the entire "product line" and that Swarovski could not compete with E&R Co. directly or indirectly in the North American market for injection molded crystal collectible figurines for the life of the products.

This issue was presented to the jury (Charge, N.T. 6/15/90 at 102), and its answers to the contract interrogatories (A)(3) and (A)(6) and damage interrogatory (1) make it clear that the jury found E&R Co. had the exclusive contractual right to market the entire product line for the life of the products.

Defendants argue that the jury's determination should be set aside as against the weight of the evidence because Yenawine's trial testimony and his memorandum of May 31, 1986 (P-26) clearly show that the Swarovski-E&R Co. agreement did not preclude Swarovski's entering the market with its own line of injection molded figurines. Yenawine's memorandum of May 31, 1986, suggested arguments Helmut Swarovski should make to the Beirat to get the Beirat's approval of E&R Co.'s use of the Swarovski name on Crystal Signatures packaging. One of

Yenawine's suggested arguments was that E&R Co. could test the market for Swarovski and create recognition of the Swarovski name in the smooth crystal figurines market. If E&R Co. knew of Swarovski's future intention to introduce competing figurines, it would rebut E&R Co.'s contention that it was offered exclusive rights to the entire product line for the life of the product.

However, no evidence was introduced that anyone at E&R Co. saw Yenawine's memorandum prior to this litigation. Yenawine did not recall whether or not he showed it to anyone from E&R Co. Russo testified he never would have entered into a distributorship agreement with Swarovski or expended so much money in advertising and promoting the Crystal Signatures line if he had known of Swarovski's intention to use E&R Co. merely to test the market. The jury could reasonably infer that neither Yenawine nor Swarovski communicated the contents of this memo to E&R Co.

The court instructed the jury to consider the writings and the conduct of the parties to determine the terms of the contract. The jury could have rationally determined from all the evidence that a contract existed between the parties. Such evidence included but was not limited to: a March 20, 1986 telex from Kurt Mignon to Stephen Palmer (P-12); a copy of the May 26, 1986 Beirat minute (P-22); the June 3, 1986 Beirat minute (P-27); Gernot Langes-Swarovski's June 12, 1986 memo to file (P-32); a July 22, 1986 telex from Mignon to Yenawine (P-44); a letter agreement relating to mold charges (P-103); and Ebeling & Reuss, Co. purchase orders (P-42, 249, and 264). The jury's determination that E&R Co. had the

exclusive right to market the entire product line for the life of the products had support in the evidence and should not be set aside.

b. Pre-Assignment Breach

E&R, Ltd. claimed defendants breached the Crystal Signatures contract with E&R Co. prior to March 31, 1988 by delivering late, revoking E&R Co.'s right to use the Swarovski name, and marketing a competing line. Defendants contended that E&R Co. agreed to modified delivery schedules, never stopped using the Swarovski name, and was not told to do so until June 1, 1988. Defendants also contended that even if there were a contract, the breach, if any, occurred only after incorporation of E&R, Ltd. (on March 31, 1988) because Swarovski did not introduce the Zales' Crystal Collectibles injection molded figurines until Fall, 1988. However, the jury found there was an enforceable contract (Appendix A, Contract Interrogatory 1) and that it was breached prior to March 31, 1988 (Appendix A, Contract Interrogatory 2).

Prior to March 31, 1988, the Beirat had met on more than one occasion when it decided not to allow E&R Co. to use the Swarovksi name. However, Swarovski negotiated with E&R Co. after the Beirat made that decision in an attempt to get E&R Co. to agree not to use the name. When E&R Co. would not agree to stop using the Swarovski name that was already on its new packaging material in accordance with the contract, Swarovski attempted to force E&R Co. to stop distributing Crystal Signatures by raising the price of the figurines and failing to confirm orders. E&R, Ltd. introduced evidence that

Swarovski was planning and marketing the competing Zales line as early as Summer, 1987, although the Zales line was not actually manufactured until after March 31, 1988. The evidence was sufficient for the jury to find Swarovski breached its contract with E&R Co. prior to March 31, 1988. These jury findings should not be set aside.

c. Assignment of Chose in Action

The court instructed the jury it could find that Alco Standard's assignment to E&R, Ltd. of "rights, benefits and obligations" under the Swarovski agreement transferred the right to sue for any breach occurring prior to the assignment, whether or not the contract itself was assignable. Defendants claim that instruction was in error.

Defendants contend that Alco Standard's cause of action could not be assigned to E&R, Ltd. unless the contract itself was assignable. However, the general rule is that any cause or right of action that would survive the death of the assignor may be assigned. *See* 3 *Penna. Law Encyclopedia,* Assignments §7.

Defendants claim that the cause of action was not in fact assigned since there was no reference to an "assignment of a chose in action" in the contract between Alco Standard and E&R, Ltd. However, the jury could reasonably have found that the broad language assigning all rights, benefits and obligations under the contract included any cause of action Alco Standard may have had

against Swarovski. Defendants point out that the exceptions Alco withdrew from assignment to E&R, Ltd. included certain causes of action Alco Standard was then litigating. That supports E&R, Ltd.'s claim that Alco Standard did not exclude its claims against Swarovski in its broad general assignment of all rights, benefits, and obligations to E&R, Ltd. Alco Standard's cause of action was clearly assignable.

d. Contract Assignment or Termination by Swarovski

The jury found that Swarovski had a right to terminate the contract with E&R Co. when E&R Co., an unincorporated division of Alco Standard, was sold to newly formed E&R, Ltd. on March 31, 1988, but Swarovski waived that right. (Appendix A, Contract Interrogatories 4&5). Swarovski contends that it did not waive the right because Swarovski communicated to E&R, Ltd. its refusal to execute the written contract negotiated in 1987 with Alco Standard on May 9, 1988 and Swarovski told E&R, Ltd. it could no longer use the Swarovski name on June 1, 1988. However, there was also evidence that during meetings in May, 1988, Swarovski was ready to produce the Disney figurines for E&R, Ltd. and asked E&R, Ltd. to approve samples. Swarovski and E&R, Ltd. were continuing to negotiate a written contract at that time.

The jury could reasonably have found that Swarovski's refusal to sign the written contract was simply a refusal to modify the existing agreement. The June 1, 1988 letter did not state that Swarovski was terminating its contract with E&R, Ltd. or that no agreement

existed; Swarovski said it was revoking the right to use its name in connection with Crystal Signatures figurines not that it was terminating the agreement to produce figurines for E&R, Ltd. There was nothing inconsistent in plaintiff's argument that revocation of the right to use the Swarovski name was a breach of the contract but not its termination. E&R, Ltd. introduced evidence that Swarovski continued to behave as though the original agreement remained in effect. The jury was entitled to find plaintiff's evidence more persuasive than that of defendants.

2. Tortious interference

Pennsylvania recognizes the torts of tortious interference with existing contractual rights and tortious interference with prospective contractual relations. *See U.S. Healthcare v. Blue Cross of Greater Philadelphia,* 898 F.2d 914 (3d Cir.) *cert. denied* 111 S.Ct. 58 (1990). Plaintiff claimed interference with two existing contracts: 1) Swarovski's failure to produce the Disney figurines as it had agreed interfered with the Disney-E&R licensing agreement; 2) SAL interfered with E&R Co.'s contract with the other defendants. Plaintiff also claimed interference with prospective contracts: the SAL letter Metcalfe sent in February, 1987, allegedly interfered with a series of prospective contracts because E&R Co. customers stopped ordering Crystal Signatures as a consequence of the letter.

a. Interference with Existing Contracts

Pennsylvania has adopted the test set forth in the Restatement (Second) of Torts for determining liability for interference with existing contractual rights:

> One who intentionally and improperly interferes with the performance of a contract (except a contract to marry) between another and a third person by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the third person's failure to perform the contract.

U.S. Healthcare, 898 F.2d at 925 (quoting Restatement (Second) of Torts § 766 (Tent. Draft No. 23, 1977) (citations omitted). The existing contract right must first be established. *Id.*

(1) SAL interference with E&R Co.'s contract with the other Swarovski defendants

The jury found an exclusive contract existed between E&R Co. (assigned to E&R, Ltd) and Swarovski. As stated in the discussion of the contract claim, that was a reasonable finding based on the evidence.

Plaintiff introduced evidence that SAL was strongly opposed to E&R Co.'s use of the Swarovski name on its packaging and put pressure on the Beirat to revoke E&R Co.'s right to use the Swarovski name. The Beirat then resolved to get E&R Co. to stop using the Swarovski name one way or another. Martin Halusa, President of SAL, proposed several possible ways to get E&R Co. to

relinquish the right to use the Swarovski name. The Beirat began negotiating with E&R Co. concerning disuse of the Swarovski name. Ultimately, the June 1, 1988 letter revoking E&R, Ltd.'s right to use the Swarovski name was sent; this was a breach of the contract.

A person or entity cannot be held liable for tortious interference with a contract to which it was a party. *See Abel v. American Art Analog, Inc.*, 838 F.2d 691, 698 (3d Cir. 1988); *Michelson v. Exxon Research and Eng'g Co.*, 808 F.2d 1005, 1007-08 (3d Cir. 1987). Neither can an agent acting on behalf of its principal be held liable for tortious interference with a contract to which its principal is a party. *See, e.g., Michelson*, 808 F.2d at 1007-08 (corporate employee acting in the scope of his employment cannot tortiously interfere with a contract to which the corporation is a party). Although the Swarovski entities were incorporated as separate companies, they were all controlled by the Beirat and acted as one entity. *See College Watercolor Group, Inc. v. William H. Newbauer, Inc.*, 360 A.2d 200, 207 (Pa. 1976) ("corporate veil is properly pierced whenever one in control of a corporation uses that control or corporate assets to further one's own personal interests"). Therefore, one member of the Swarovski group cannot be liable for tortious interference with a contract to which another Swarovski entity is a party. SAL's actions cannot be tortious interference with the Swarovski-E&R contract as a matter of law.

(2) Interference with Disney Licensing Agreement

The only post-March 31, 1988 conduct which plaintiff claims constituted tortious interference was Swarovski's failure to provide the Disney samples resulting in a breach of E&R, Ltd.'s agreement with Disney. The parties stipulated that the Disney agreement had been signed. The evidence of the existence of a contract with Disney was sufficient.

Helmut Swarovski and the Swarovski defendants knew of E&R, Ltd.'s licensing agreement with Disney. E&R, Ltd. informed Swarovski that the sample Disney figurines had to be ready for the Disney Expo in September, 1988. With knowledge that its actions would put the Disney agreement in jeopardy, Swarovski failed to work on the Disney figurines during the Summer of 1988 in violation of the July 29, 1988 court order requiring Swarovski to furnish samples to plaintiff by September, 1988. On August 4, 1988, Swarovski moved for a stay pending appeal or a modification of the order in the alternative on the ground of impossibility or inability to comply. Meanwhile, Swarovski was using its capacity for making injection molded crystal figurines to manufacture a competing Zales Crystal Collectibles line of figurines.

This conduct was a breach of contract and in contempt of court but it was not tortious interference. Defendants did not induce or otherwise cause Disney (the third person) to breach its agreement with E&R, Ltd.; defendants' breach of contract prevented E&R, Ltd. from performing the Disney agreement. Plaintiff may recover

consequential damages for that breach but plaintiff cannot recover tort damages.

b. Interference with Prospective Contracts

Pennsylvania law recognizes a cause of action for tortious interference with a prospective contract. *See Thompson Coal Co. v. Pike Coal Co.*, 412 A.2d 466 (Pa. 1979); *Glenn v. Point Park College*, 272 A.2d 895 (Pa. 1971). Plaintiff must prove a reasonable probability that the contract would have been executed. *Tose v. First Pennsylvania Bank*, 648 F.2d 879, 898 (3d Cir.), *cert. denied*, 454 U.S. 893 (1981); *General Sound Telephone Co. v. AT&T Communications*, 654 F. Supp. 1562, 1565 (E.D. Pa. 1987); *Thompson Coal*, 412 A.2d at 471; *Glenn*, 272 A.2d at 898-99. In *General Sound*, the district court held that testimony from the prospective contractee that he probably would have *considered* contracting with the plaintiff was insufficient. 654 F. Supp. at 1565. The court implied that testimony from the third party that he probably would have *contracted* with the plaintiff was required. *Id.*

Michael Russo, President of E&R, Ltd., testified that as a result of the Metcalfe letter, stating E&R Co. was not authorized to use Swarovski's name, retailers questioned E&R Co. salesmen about the authenticity of Crystal Signatures. Russo did not name particular retailers or offer documentary evidence of complaints resulting from the Metcalfe letter. Plaintiff relied on a drop in sales several months after the Metcalfe letter was sent to prove that the letter kept retailers from buying the Crystal Signatures line from doing so. This evidence as to prospective sales contracts was insufficient as a matter of law to establish a

reasonable probability that some retailers would have placed Crystal Signatures orders with E&R Co. Since this was the only evidence of pre-March 31, 1988 third party prospective contractual relations with which the Swarovski defendants allegedly interfered, the jury finding (C)(3) of tortious interference with prospective contractual relations cannot be sustained as a matter of law. *See* Appendix A.

3. Fraud

Plaintiff's principle claim of fraud was that Swarovski induced E&R Co. to enter into a contract to market, advertise, and sell Swarovski manufactured injection molded crystal figurines by representing that E&R Co.'s distributorship would be exclusive when Swarovski intended to capitalize on E&R Co.'s efforts and market and sell a competing line of figurines. Defendants contend that there is no evidence that any Swarovski entity intentionally made a false statement to either E&R Co. or E&R, Ltd. or failed to use reasonable care to inform E&R of anything the Swarovski defendants were under an affirmative duty to disclose.

To support a claim of fraud, a plaintiff must show: "(1) a misrepresentation; (2) a fraudulent utterance or nondisclosure; (3) an intention by the maker that the recipient will thereby be induced to act; (4) justifiable reliance by the recipient upon the misrepresentation; and (5) damage to the recipient as the proximate result." *Marian Bank v. Int'l Harvester Credit Corp.*, 550 F. Supp. 456, 461 (E.D. Pa. 1982); *Neuman v. Corn Exchange National Bank & Trust Co.*, 51 A.2d 759 (1947); *see also Sowell v.*

Butcher & Singer, Inc., 926 F.2d 289, 296 (3d Cir. 1991) (citations omitted).

a. Fraud on E&R Co.

Plaintiff claims defendants misrepresented to E&R Co. that they intended to give E&R Co. the exclusive distribution rights to the injection molded crystal figurine line. Defendants dispute that they made any misrepresentations to E&R Co. Defendants claim E&R Co. knew of the possibility that Swarovski would manufacture competing injection molded crystal figurines because Yenawine and Palmer knew of that possibility and Yenawine testified he would not have kept that information from E&R Co. But Yenawine testified he did not recall whether anyone from E&R Co. actually received that information. Although the jury could have inferred that E&R Co. knew Swarovski might later market a competing line, the jury did not have to reach that conclusion. Based on all the testimony, the jury could reasonably have found that E&R Co. did not know Swarovski intended to compete with Crystal Signatures at a later date. (Appendix A, Fraud Interrogatories (D)(1-4))

A breach of contract does not ordinarily give rise to tort liability. *See Iron Mountain Security Storage Corp. v. American Specialty Foods, Inc.*, 457 F. Supp. 1158, 1166 (E.D. Pa. 1987). However, a party can be liable for fraud if the party intended not to comply with the terms of the contract at the inception of the contractual relationship. *See American Trade Partners v. A-1 International Importing,*

755 F. Supp. 1292, 1300 (E.D. Pa. 1990); *Redick v. Kraft, Inc.*, 745 F. Supp. 296, 301 (E.D. Pa. 1990).

Defendants contend they made no misrepresentation upon formation of the contract because they did not form the intent to market Crystal Collectibles until well after the formation of the E&R Co. contract. The earliest evidence of Swarovski's intent to market a smooth line of crystal figurines through Zales was a letter written by Martin Halusa on August 14, 1987 (P-253). The jury could reasonably have believed that Swarovski intended to compete with E&R at the inception of the E&R-Swarovski contract even if it did not decide to do so through Zales until 1987.

Evidence was introduced that Swarovski failed to disclose its intent to compete with E&R Co. in order to induce E&R Co. to test the market for smooth crystal figurines. The Yenawine memorandum of May 31, 1986 to Swarovski suggested that Swarovski would benefit from E&R Co.'s use of the Swarovski name because E&R Co. would facilitate Swarovski's subsequent market entry. The jury could infer from that memorandum and other testimony at trial that Swarovski, intending to use E&R Co. to test the market, failed to disclose that intention to E&R Co. to induce E&R Co.'s expenditure of time and resources to establish the market.

Russo testified that E&R Co. never would have agreed to market Crystal Signatures if it had known the distributorship would not be exclusive. E&R Co. justifiably relied on its understanding that it would have an exclusive right to market Crystal Signatures when it entered into the contract with Swarovski. E&R Co.

expended $850,000 for marketing costs based on its belief that its contract with Swarovski contract [sic] granted it exclusivity. Plaintiff introduced sufficient evidence to support its claim of fraud and the jury verdict in favor of E&R Co. based on fraud should not be set aside.

b. Fraud on E&R, Ltd.

The jury also found that defendants' fraudulent misrepresentations harmed E&R, Ltd. The only post March 31, 1988 fraudulent misrepresentations to E&R, Ltd. alleged by plaintiff were Swarovski statements that it would produce Disney samples. As a result of that misrepresentation, plaintiff prepared to sell Disney figurines at the Disney Expo in the Fall, 1988. When Swarovski failed to produce the samples, plaintiff lost the opportunity to take advantage of its potentially lucrative licensing agreement with Disney.

Assuming that plaintiff justifiably relied on a misrepresentation that Swarovski made knowing it was fraudulent and intending E&R, Ltd. to rely on it, plaintiff failed to prove any harm resulting from the fraudulent misrepresentation. Plaintiff claimed lost profits from Swarovski's failure to produce the Disney figurines. Plaintiff did not claim any damages for its costs spent in reliance on receiving the Disney samples. If plaintiff had not been induced to enter into the Disney license agreement by Swarovski's fraudulent misrepresentation, plaintiff still would not have received any profit from the Disney license agreement.

Plaintiff's ability to profit from the Disney license agreement was dependent on Swarovski producing the samples and, eventually, producing Disney figurines for sale. Plaintiff's lost profits were the result of Swarovski's breach of the E&R-Swarovski agreement by not producing those samples. Swarovski was already contractually required to produce Crystal Signatures figurines for E&R, Ltd. under the exclusive requirements contract. Plaintiff did not lose its opportunity for future profits because of Swarovski's misrepresentation that it would comply with the agreement; E&R, Ltd. lost future profits because Swarovski breached the agreement by failing to produce the Disney samples. The lost profits were awarded by the jury as damages for breach of contract.

Even assuming E&R, Ltd. relied on Swarovski's allegedly fraudulent misrepresentation in deciding to enter into the Disney license agreement, plaintiff did not prove any harm proximately from the fraud itself. Therefore, the jury finding of harm to E&R, Ltd. from defendants fraudulent misrepresentations should be set aside.

4. Trademark Infringement

Liability for trademark infringement redresses a special kind of unfair competition. *See Smithkline Beckman Corp. v. Pennex Products Co.*, 605 F. Supp. 746, 749 (E.D. Pa. 1985). In order to constitute trademark infringement under the Lanham Act, 15 U.S.C. § 1114, defendants' mark must be a "reproduction, counterfeit, copy or colorable imitation" of plaintiff's registered mark, and its use must be likely to cause confusion or mistake, or to deceive the consuming public. Crystal Signatures is E&R,

Ltd.'s registered trademark. The jury found that similarity between defendants' Crystal Collectibles and E&R, Ltd.'s trademark, Crystal Signatures, was likely to cause confusion or mislead consumers into believing that the products came from the same source.

Trademark law divides marks into four categories: (1) arbitrary terms; (2) suggestive terms; (3) descriptive terms; and (4) generic terms. *Dranoff-Perlstein Assocs. v. Sklar*, 1992 U.S. App. LEXIS 14440 (3d Cir. June 17, 1992). A mark is entitled to protection if it is arbitrary, suggestive, or descriptive and possesses secondary meaning. *Id.* Generic terms and descriptive terms that have not acquired secondary meaning are not entitled to protection. *See American Cyanamid Corp. v. Connaught Laboratories, Inc.*, 800 F.2d 306 (2d Cir. 1986).

The only similarity between Crystal Collectibles and Crystal Signatures is the word "crystal." E&R, Ltd. makes no claim to the use of the word "crystal" as crystal is a generic term when used to describe a crystal product and cannot be appropriated for exclusive use by registration of a trademark. *See, e.g., Dranoff-Perlstein* at *28; *American Cyanamid*, 800 F.2d at 308.

In deciding whether a mark is entitled to protection, the overall impression of the entire mark must be considered. "If a common portion of the two conflicting marks is a public domain generic word, the emphasis of the enquiry should be upon the confusing similarity of the nongeneric portion, with the ultimate issue determined by the confusing similarity of the total impression of both marks." *Dranoff-Perlstein* at *28 (citations omitted). The words "collectibles" and "signatures" are not similar and

do not have similar meanings. Plaintiff's registration of the mark Crystal Signatures cannot preclude anyone from using the descriptive term "Crystal Collectibles" to describe collectible crystal figurines. The jury could not reasonably have found that defendants infringed plaintiff's registered mark because the jury's finding of similarity could only have been based on the common use of the word crystal. Liability for violation of trademark will be set aside as incorrect as a matter of law.

5. Unfair Competition

Plaintiff alleged, and the jury found, that defendants engaged in unfair competition in violation of the Lanham Act by infringing on plaintiff's trade dress. To establish a violation of the Lanham Act, 15 U.S.C. § 1125, for trade dress infringement of a product that moves in interstate commerce, plaintiff must prove these three elements: 1) imitation of a non-functional feature, or combination of features, of plaintiff's product, packaging, or design; 2) acquired "secondary meaning" of the imitated feature; and 3) likelihood of consumer confusion of the source of plaintiff's product with that of defendant's product. *American Home Products Corp. v. Barr Laboratories*, 834 F.2d 368, 370 (3d Cir. 1987); *Standard Terry Mills, Inc. v. Shen Mfg. Co.*, 803 F.2d 778, 780 (3d Cir. 1986). The Pennsylvania common law of unfair competition is identical to the provisions of the Lanham Act except that interstate commerce is not required. *Mercury Foam Corp. v. L&N Sales & Mktg.*, 625 F. Supp. 87, 91 n.1 (E.D. Pa. 1985); *Smithkline Beckman Corp.*, 605 F. Supp. at 748 n.1.

The jury found that E&R, Ltd. proved each of the three elements of its unfair competition claim (Appendix C, Unfair Competition Interrogatories 2-4) but the verdict must be set aside because there was insufficient evidence that the Crystal Signatures line had achieved secondary meaning in the marketplace as a matter of law. Therefore, the court need not consider whether plaintiff proved imitation or likelihood of confusion.

A product has achieved secondary meaning when the primary significance of a product feature or term is to identify in the mind of the consumer the source of the product rather than the product itself. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982). In determining whether E&R, Ltd. met its burden of proving secondary meaning, the court must consider: 1) the length and manner of use; 2) the nature and extent of advertising and promotion; 3) other efforts creating a conscious connection in the public's mind between the appropriated term or feature and the plaintiff's product; 4) the size of the company and its share of the market; and 5) testimony of buyers. *Ginger Group Ltd. v. Beatrice Companies, Inc.*, 678 F. Supp. 555, 560 (E.D. Pa. 1988).

E&R Co. and then E&R, Ltd. had been marketing Crystal Signatures for two years before Crystal Collectibles entered the market; it had spent $850,000 in advertising and promotion of the product. E&R, Ltd. was not the only company distributing crystal figurines but it was the only distributor of crystal figurines manufactured by Swarovski's injection molded technology. Crystal Signatures were displayed in distinctive cases and brochures were available for retailers to distribute to consumers. E&R, Ltd. had used the term "crystal collectibles" in its

advertising to describe the Crystal Signatures product. *See* P-71C.

E&R, Ltd.'s right to use the Swarovski name relates to the breach of contract count; the use of the Swarovski name on a Swarovski product is not a basis for the unfair competition claim. The appearance of the box and the designs copied are the only non-functional features of Crystal Signatures' trade dress that E&R, Ltd. claims Swarovski misappropriated. Plaintiff did not contend that Zales used the same display and lighting. Plaintiff failed to prove that the appearance of the box and the copied designs had achieved secondary meaning.

Proof that E&R made an effort to establish secondary meaning is not sufficient to establish secondary meaning. *See Towle Mfg. Co. v. Godinger Silver Art Co.*, 612 F. Supp. 986, 994 (S.D.N.Y. 1985). There was no evidence that any consumer identified the Crystal Signatures box or the figurines with E&R; although plaintiff was trying to develop a connection in the public's mind with its trade dress, plaintiff is not entitled to protection for "secondary meaning in the making." *See Laureyssens v. Idea Group Inc.*, 1992 U.S. App. LEXIS 10643 (2d Cir. May 15, 1992). The doctrine of secondary meaning ensures that something worth protecting exists before it limits the freedom of a competitor to compete by copying. *Id.* Plaintiff failed to introduce any evidence that consumers had begun to recognize the Crystal Signatures' trade dress; the jury finding for plaintiff on the unfair competition claim is not supported by the evidence.

Plaintiff's trademark and unfair competition claims are in reality a reassertion of the claim that Swarovski

breached the contract by marketing a competing line of injection molded crystal figurines. The jury's verdict and punitive damage award for trademark infringement and unfair competition must be set aside as incorrect as a matter of law. *See* Appendix C, Trademark & Unfair Competition.

6. Trade Secret

The burden of proof is on the plaintiff to show both a trade secret and misappropriation by defendants. *Gilbert v. Otterson*, 550 A.2d 550, 555 (Pa. Super. 1988), *app. denied*, 562 A.2d 320 (Pa. 1989). Pennsylvania courts have adopted the definition of a trade secret given in the Restatement of Torts § 757 comment b (1939):

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving material, a pattern for a machine or other device, or a list of customers.

SI Handling Systems v. Heisley, 753 F.2d 1244, 1255 (3d Cir. 1985).

E&R Co. made a presentation to Swarovski at which time it disclosed its marketing strategy for Crystal Signatures. Plaintiff contended that the presentation was to demonstrate E&R Co.'s ability to distribute the injection molded figurine line successfully and Swarovski was not

entitled to use that information in competing with plaintiff.

Swarovski's internal documents established that Swarovski gained an advantage from E&R Co.'s disclosure of its marketing strategy. The jury could reasonably have found that Swarovski misappropriated E&R Co.'s marketing strategy and used it to its own advantage in marketing Crystal Collectibles.

Defendants claim that plaintiff cannot now assert that Swarovski misappropriated its marketing strategy because that position is inconsistent with plaintiff's claim on damages. Plaintiff claimed that marketing of Zales Crystal Collectibles was inferior to the marketing of Crystal Signatures so that Crystal Collectibles' sales were not an accurate measure of the lost future profits of Crystal Signatures. These positions are not inconsistent; Swarovski may have attempted the use of E&R Co.'s marketing strategy without being as successful as plaintiff would have been. The finding of liability in favor of plaintiff on trade secret will not be set aside. However, plaintiff failed to meet its burden of proof on damages for trade secret misappropriation and the punitive damages awarded on that claim were duplicative, so they will be set aside. *See infra* III.B.3.

B. DAMAGES – Motion to Alter or Amend the Verdict or Grant a New Trial

Defendants move the court to alter or amend the verdict on damages or grant a new trial on damages. A trial judge can grant a new trial or alter or amend a

verdict under Federal Rule of Civil Procedure 59. Rule 59 provides:

> (a) Grounds. A new trial may be granted to all or any of the parties and on all or part of the issues (1) in an action in which there has been a trial by jury, for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States. . . .
>
> * * *
>
> (e) Motion to Alter or Amend a Judgment. A motion to alter or amend the judgment shall be served not later than 10 days after entry of the judgment.

A trial court has broad discretion in ruling on a motion for a new trial under Rule 59(a) on the grounds of improperly admitted or excluded evidence, misconduct of counsel, an improper charge to the jury, or newly discovered evidence. *See Lind v. Schenley Indus., Inc.*, 278 F.2d 79, 90 (3d Cir.), *cert. denied*, 364 U.S. 835 (1960). A trial judge's discretion is more limited in granting a new trial because the jury's verdict is against the weight of the evidence. *See id.* at 90.

Rule 59(e) was enacted to allow a district court to rectify its own mistakes. *See White v. New Hampshire Dept. of Employment Secur.*, 455 U.S. 445, 451 (1982) (citing the Advisory Committee Report to Rule 59). A Rule 59(e) motion can be granted if there is a change in the controlling law, new evidence not previously available becomes available, or a need to correct a clear error of law or prevent manifest injustice. *See Atkins v. Marathon LeTourneau Co.*, 130 F.R.D. 625 (S.D. Miss. 1990); *Natural*

Resources Defense Council, Inc. v. U.S. E.P.A., 705 F. Supp. 698 (D.D.C. 1989).

A court may not grant a motion to alter or amend the verdict under Rule 59(e) if it would defeat a party's right to a jury trial on the issue. *See* Wright & Miller, *supra* at § 2817. A judge may not set aside a verdict merely because the judge might have awarded a different amount of damages. *See Toombs v. Manning*, 640 F. Supp. 938, 940 (E.D. Pa. 1986), *aff'd in part and rev'd in part*, 835 F.2d 453 (3d Cir. 1987); 11 Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 2807 (1991).

Defendants seek to set aside the damages verdicts for lost profits, reputation damages, trade secret, and punitive damages.

1. Lost Profits

The compensatory damage award of lost profits in the amount of $25,000,000 was neither against the weight of the evidence nor manifestly unjust.

a. Limitation of Damages: Statute of Frauds

Defendants concede the existence of a contract with E&R Co. but contend that Swarovski liability for breach of the E&R contract is limited by the Statute of Frauds to the amount of goods admitted or stated in written memoranda signed by Swarovski, *ie.*, the amount set forth in the purchase orders submitted to Swarovski by E&R Co.

A contract for the sale of goods for the price of $500 or more must be memorialized by a writing signed by the

party against whom enforcement is sought. 13 Pa. C.S.A. § 2201(a). The contract is not enforceable under § 2201(a) "beyond the quantity of goods shown in such writing." *Id.* However, § 2306 of the Pennsylvania Commercial Code allows quantity to be measure by the seller's output or the buyers requirements. The Third Circuit interprets § 2306 as allowing open quantity agreements when the parties' clear intention is to enter into more than a simple buy and sell agreement. *See Advent Systems Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991). Plaintiff characterizes the agreement as a requirements contract for the life of the product.

The jury reasonably found that the E&R-Swarovski contract was for the entire "product line" for the life of the product. Russo testified at trial that Crystal Signatures was a line of collectibles; collections of figurines with common themes were to be marketed together although additional items would be added to each group from time to time. A telex from Swarovski, Pl. Ex. 12, stated that Swarovski was prepared to begin production on the series listed and gave exclusivity to E&R Co.; this also supported plaintiff's claim that the E&R-Swarovski agreement was for the entire product line.

The jury could have reasonably inferred from the evidence that the contract between Ebeling & Reuss and Swarovski was an exclusive requirements contract. The defendants tried to persuade the jury that the contract was limited to the quantities set forth in the purchase orders. The jury chose not to ignore evidence that the agreement covered plaintiff's requirements for the entire product line and not just the figurines that had been ordered. Even if no specific amount was stated, such a

contract satisfies the quantity requirements of the Statute of Frauds under § 2306.

b. Speculativeness

Under Pennsylvania law, lost profits may be recovered in a contract action if (1) established with reasonable certainty; (2) the proximate consequence of the wrong; and (3) reasonably foreseeable. *Delahanty v. First Pennsylvania Bank, N.A.*, 464 A.2d 1243, 1258 (Pa. Super. 1983). Proof of damages need not be mathematically precise, but the evidence must establish damages "with a fair degree of probability." *Exton Drive-In, Inc. v. Home Indemnity Co.*, 261 A.2d 319, 324 (Pa. 1969), *cert. denied*, 400 U.S. 819 (1970).

The Pennsylvania Supreme Court has been skeptical of claims for lost profits by a "new and untried business." *Exton* 261 A.2d at 324. *See also Delahanty*, 464 A.2d at 1260; *Pollock v. Morelli*, 369 A.2d 458, 463 (Pa. Super. 1976). However, an award may be made "where such a loss was reasonably foreseeable to the parties at the time that the contract was entered and where those damages are capable of proof of reasonable certainty." *General Dynafab, Inc. v. Chelsea Industries, Inc.*, 447 A.2d 958, 960 (Pa. Super. 1982).

In *General Dynafab*, plaintiff, arguably a newcomer to the business, was able to show commitments of orders from four sources; "there was significant interest in [its] product before the contract breach occurred," so that evidence of lost profits should have been submitted to the

jury. *Id.* The *Delahanty* court stated the practice in Pennsylvania is to "liberally allow evidence of alleged profits to be submitted to the jury." 464 A.2d at 1260. The court must then analyze the evidence and the circumstances and make its own determination whether as a matter of law the damages are too speculative.

Ebeling & Reuss had a 100 year history of distributing goods for various manufacturers to retail outlets in the United States. Ebeling & Reuss had not distributed Swarovski molded crystal objects, but Ebeling & Reuss had been distributing this type of product successfully for many years; Swarovski had chosen E&R Co. as its distributor so it believed E&R Co. had the resources and capability to succeed in such an endeavor. E&R, Ltd. continued the business in much the same way as E&R Co.; E&R, Ltd. continued using the name Ebeling & Reuss Co., and distributed the same type of products to the same customers.

Ebeling & Reuss had a reputation in the marketplace for distributing successful products. There was evidence that Ebeling & Reuss had been successful in its introduction of the product. Ebeling & Reuss's profits depended on its ability to sell the crystal figurines manufactured by Swarovski to United States retailers. Ebeling & Reuss, Ltd.'s proof of this rested on the testimony of Russo, the company president, and Cook, its expert witness. Both relied heavily on the initial projections Russo formulated when E&R Co. decided to distribute the Crystal Signatures line. The Russo projections were not unreliable just because the actual sales of Crystal Signatures were not as great as predicted; the jury believed, based on sufficient evidence, that the loss of sales of Crystal Signature items

was caused by the defendants. Defendants cannot use their own actions to defeat plaintiff's claim.

This case is distinguishable from *Advent Systems Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991), where plaintiff's expert relied on industry projections much higher than actual industry sales data. Unisys had agreed to distribute an electronic document management system developed by Advent. Unisys breached the distribution agreement, and marketed its own electronic document management system instead. In its suit against Unisys, an expert for Advent testified to the projected lost profits suffered by Advent as a result of the breach. The projections were based on a market analysis prepared at the time electronic document management systems were introduced into the market and predicted industry-wide sales. At trial, Unisys introduced actual industry results showing that the projections relied on by plaintiff's expert were overly optimistic. The Court of Appeals remanded the case on other grounds after commenting that the court had serious doubts whether the record was adequate to support the lost profits verdict.

Mr. Cook also relied on projections of sales made prior to introduction of the product, but they applied only to Crystal Signatures' projected sales and not industry-wide sales of crystal collectible miniature figurines. Defendants did not offer actual industry sales figures to show that sales in the crystal or figurine markets were down in general during the period the harm to Ebeling & Reuss occurred.

Defendants offered the poor sales of the Zales Crystal Collectibles line to show that the projections on which

Russo and Cook relied were flawed. Defendants did not establish that the marketing of Zales Crystal Collectibles was comparable to the marketing of Crystal Signatures. Defendants failed to introduce any evidence that the poor performance of Zales Crystal Collectibles was representative of performance in the industry. Plaintiff introduced evidence the jury reasonably believed – namely, that the Swarovski promotion and marketing of the Crystal Collectibles line was inferior to the professional approach Ebeling & Reuss would have used in marketing the Crystal Signatures line.

The jury could have reasonably concluded that the marketing of the Crystal Signatures line was not a new business for E&R Co. Russo's projections were based on his many years in the business and were sufficiently reliable. The verdict awarding plaintiff $25,000,000 for lost profits was not excessive since the jury found E&R's distributorship was to have been exclusive for the life of the product.

2. Reputation Damages

Damage for harm to reputation proximately caused by tortious interference with contractual relations is recoverable in Pennsylvania. *See Tose v. First Pennsylvania Bank,* 648 F.2d 879, 898 (3d Cir. 1981). Plaintiff alleged SAL tortiously interfered with plaintiff's prospective contractual relations with retailers by sending the Metcalfe letter. Plaintiff claimed the Metcalfe letter harmed its reputation in the collectibles industry by casting doubt on the authenticity of collectibles distributed by Ebeling & Reuss.

Plaintiff failed to prove actionable tortious interference and judgment notwithstanding the verdict will be entered for defendants on the tortious interference count. *See supra* III.A.2. Therefore, there is no liability finding to support damages for harm to reputation.

3. Trade Secret Damages

Defendants contend that the trade secret damages verdict of $291,364 should be set aside because it is unsupported by the evidence. Plaintiff introduced evidence at trial that Swarovski used the marketing strategy Swarovski had learned from confidential communications with E&R Co. when it marketed Zales Crystal Collectibles. Plaintiff, in its closing argument on trademark, unfair competition, and trade secret, asked the jury to award $291,364 in damages to deprive Swarovski of profits earned by misappropriation of plaintiff's trade secret.

Plaintiff's demand for an award of Swarovski profits in that amount required a succession of inferences. (N.T. 6/21/90 at 47-48) Plaintiff asked the jury to infer that Swarovski charged Zales roughly the same as it charged Ebeling & Reuss. Plaintiff estimated the unit cost of Crystal Collectibles based on a "mid-point" retail price for Crystal Collectibles. The figures on which plaintiff relied other than the number of pieces sold were no more than uninformed estimates. There was evidence of the number of Zales Crystal Collectibles pieces sold but no reliable evidence of the profit from their sale. The verdict of $291,364 was entirely speculative and will be set aside. (Appendix C, Damages Interrogatory 7a.)

4. Punitive Damages

a. Constitutionality

The jury awarded punitive damages for defendants' tortious conduct of tortious interference, fraud, trademark infringement, unfair competition, and misappropriation of a trade secret. Defendants argue that the punitive damages awarded under Pennsylvania law must be set aside because the award violated the Fourteenth Amendment's due process clause. Defendants concede that the jury charge on punitive damages "was based on an accurate understanding of Pennsylvania law today." Defendants' Memorandum of Law at 21. Nevertheless, defendants assert that Pennsylvania law violates the due process clause of the Fourteenth Amendment because the amount of the award is in the sole unguided discretion of the jury.

In *Pacific Mutual Life Insurance Co. v. Haslip*, 111 S. Ct. 1032, 113 L. Ed. 2d 1 (1991), the Supreme Court, denying a similar challenge to Alabama law, held that common law assessment of punitive damages does not deny due process and is not *per se* unconstitutional. Plaintiffs had sued an insurance agent and Pacific Mutual Insurance Company for fraudulently misappropriating insurance premiums paid for plaintiffs' coverage through another insurance company. The jury returned a plaintiff's verdict including punitive damages in the amount of $840,000. In determining the constitutionality of punitive damages, the Court considered reasonableness and adequate guidance from the trial court. *Id.* The Court found that discretion to award punitive damages was exercised within reasonable constraints where the jury had been instructed

that the purpose of punitive damages was confined to deterrence and retribution.

Pennsylvania law also allows punitive damages for punishment and deterrence. *See Kirkbride v. Lisbon Contractors, Inc.*, 555 A.2d 800, 803 (Pa. 1989). A Pennsylvania jury's decision to award punitive damages is not without guidance; it must consider the factors set forth in § 908(2) of the Restatement (Second) of Torts. *See Feld v. Merriam*, 485 A.2d 742 (Pa. 1984).

Section 908(2) permits punitive damages to "be awarded for conduct which is outrageous, because of the defendant's evil motive or his reckless indifference to the rights of others. Punitive damages must be based on conduct which is 'malicious,' 'wanton,' 'reckless,' 'willful,' or 'oppressive.' " *Feld* at 747-48 (citations omitted). Section 908(2) states, "[i]n assessing punitive damages, the trier of fact can properly consider the character of the defendant's act, the nature and extent of the harm to the plaintiff that the defendant caused or intended to cause and the wealth of the defendant." As Pennsylvania law provides jurors with at least the same guidance as the common law of Alabama, the punitive damage award is not *per se* unconstitutional.

In *Pacific Mutual*, the Supreme Court also considered whether Alabama's post-jury-verdict standard of review satisfied the due process requirements of the Fourteenth Amendment. The Court found that Alabama's standard of review met federal constitutional requirements where: the state's post verdict test insures meaningful and adequate review by the trial court whenever a jury has awarded punitive damages; the state's highest court

applies appellate review standards that impose a meaningful and sufficiently definite constraint on the discretion of state fact finders in awarding punitive damages; and such standards have a real effect resulting in reduction of punitive damages awards in post verdict review by the trial judges and state supreme court.

Defendants assert that Pennsylvania law impermissibly restricts the exercise of judicial discretion to set aside excessive damage awards. Defendants argue that "a court should be able to set aside an award on the grounds that it is unfair, not reasonably related to the actual harm or unwarranted by the evidence." Defendants' Memorandum of Law at 22. The Pennsylvania test, as set forth in *Kirkbride,* not only imposes sufficiently definite and meaningful constraint on the discretion of the fact finder but insures meaningful and adequate review.

Pennsylvania affords review of the punitive damage award both at the trial and appellate level. *See, Sulecki v. Southeast National Bank,* 516 A.2d 1217, 1220 (Pa. Super. 1986). Under Pennsylvania law, a court may set aside a punitive damage verdict "in those rare instances" where "the amount of punitive damages may be so disproportionate when compared to the character of the act, the nature and extent of the harm and the wealth of the defendant, that it will shock the court's sense of justice." *Kirkbride,* 555 A.2d at 803. Pennsylvania law somewhat restricts a court's ability to set aside a verdict, but Pennsylvania courts have not found this burden insurmountable. The Pennsylvania standard has real effect when applied by Pennsylvania courts to jury awards. *See, e.g., Southeast National Bank v. Sulecki,* 516 A.2d at 1217 (Superior court affirms trial court's decision to reduce punitive

damage award). Post verdict review by Pennsylvania appellate courts has also resulted in the reduction of punitive awards. *See, e.g., Feld v. Merriam,* 485 A.2d 742 (Pa. 1984) (Pennsylvania Supreme Court granted new trial where issue of punitive damages improperly went before jury); *Smith v. Celotex Corp.,* 564 A.2d 209 (Pa. Super. 1989) (Pennsylvania Superior Court granted judgment NOV to appellant as to punitive damages).

Pennsylvania law makes clear that punitive damages awards do not have to be related to the compensatory damages suffered. In adopting §902 of the Restatement (Second) of Torts, Pennsylvania law makes the comparison not the relationship of the punitive damages to the compensatory damages but the relationship of the punitive damages to the wealth of the tortfeasor in order "to deter him or others from similar conduct." *See Kirkbride,* 555 A.2d at 803. In light of these policies, guidelines and constraints under Pennsylvania law and their similarity to those in Alabama explicitly approved by the Supreme Court in *Pacific Mutual,* an award of punitive damages under Pennsylvania law satisfies the due process requirement of the Fourteenth Amendment.

The court will now exercise such a review of the jury verdict on punitive damages.

b. Excessiveness of Punitive Damages Verdict

Defendants contend that the punitive damage awards are duplicative and excessive. The claims for breach of contract, promissory estoppel, tortious interference,

fraud, and civil conspiracy were sent to the jury first. The jury awarded a total of $33,850,000 in compensatory damages and $16.5 million in punitive damages on those claims. *See* Appendix B. The jury next heard closing argument and charge of the court on the trademark, unfair competition, and trade secret claims; no additional evidence was presented. The jury returned an additional punitive damage award of $2.5 million on the trademark and unfair competition claims and an additional award of $291,364 in compensatory damages and $2.5 million in punitive damages on the trade secret claim. *See* Appendix C.

Pennsylvania follows section 908(2) of the Restatement (Second) of Torts in considering the following three factors in awarding punitive damages: (1) the character of the act; (2) the nature and extent of the harm; and (3) the wealth of the defendant. *Kirkbride*, 555 A.2d at 803. A court may set aside a jury award of punitive damages in those rare instances when the punitive damages are so disproportionate to those factors that it shocks the court's sense of justice. *Id.*

Swarovski's net worth was stipulated to be in excess of $200 million; compensatory damages on all claims totalled $34,141,364 and punitive damages on all claims totalled $21,500,000. As a result of the judgment n.o.v. on liability, total compensatory damages are reduced to $25,850,000. The $2.5 million punitive damage award on the trademark and unfair competition claims was set aside because liability was not established. *See supra* III.A.4&5. Because of the likelihood the $2.5 million punitive damage award for misappropriation of a trade secret was duplicative, the court will set aside that award also.

Therefore, the total award of punitive damages is $16.5 million.

The punitive damages are not disproportionate to the nature of defendants' actions. Defendants were using their capacity to make injection molded figurines to compete with E&R, Ltd. while refusing to deliver the Disney figurines in breach of contract. The jury also saw and obviously reacted to the arrogance of defendants' witnesses. The jury clearly found defendants' conduct outrageous as it found against defendants on all counts.

The punitive damages are not disproportionate to the nature and extent of the harm. The resulting total award of $16,500,000 in punitive damages is less than the total award of $25,850,000 in compensatory damages. Plaintiff's business was in effect destroyed by defendants' conduct; plaintiff ultimately filed for bankruptcy protection. The award of punitive damages is not excessive even though the court will set aside the jury findings on liability for tortious interference and fraud against E&R, Ltd. The jury determined the amount of punitive damages based on the nature of defendants' actions, not the theory of defendants' liability.

The defendants' net worth was stipulated to be in excess of $200 million dollars. The punitive damage award of $16.5 million is less than 10% of that amount. Considering the conduct of defendants, the harm to plaintiff that defendants intended to cause to avoid the contract, and the extreme wealth of defendants (far in excess of the amount stipulated), this court is not persuaded to reduce the punitive damage award further.

C. MOTION FOR NEW TRIAL

Federal Rule of Civil Procedure 59(a) allows a court to grant a motion for new trial when there has been a trial by jury "for any of the reasons for which new trials have heretofore been granted in actions at law in the courts of the United States." Fed. R. Civ. P. 59(a). Defendants complain of numerous errors in the three week trial of this action.

1. Expert Testimony

a. Plaintiff's expert properly qualified

Plaintiff offered Stephen B. Cook as an expert in valuing a product line. Mr. Cook testified on voir dire that he had valued product lines in his work with Price Waterhouse, he had been to conventions in the retail merchandising field, and he had worked in the collectibles industry for E&R in high school and college. (N.T. 6/7/90 at 66-73) Defense counsel challenged Mr. Cook's expertise in valuing a product line because of Mr. Cook's admitted lack of expertise in evaluating the aesthetics of products. Defendants claim that knowledge of the general public's interest in a new product that had never before been marketed was necessary for valuing that new product.

A witness may testify as an expert if he has such skill, knowledge, or experience in the field as to make it appear that his opinion will probably aid the trier of fact. *Hines v. Conrail,* 926 F.2d 262, 272 (3d Cir. 1991); *Aloe Coal Co. v. Clark Equipment Co.,* 816 F.2d 110, 114 (3d Cir.), *cert. denied,* 484 U.S. 853 (1987). A proffered expert witness

must possess knowledge or skill in the area of his testimony greater than that of the average layman. *Aloe Coal Co.*, 816 F.2d at 114. The standard for qualification as an expert under Federal Rule of Evidence 702 is liberal. *Hines*, 926 F.2d at 272. Credibility determinations are for the jury. *In re Paoli R.R. Yard PCB Litigation*, 916 F.2d 829, 858 (3d Cir. 1990).

Mr. Cook's testimony on the value of the Crystal Signatures product line was helpful to the jury. Mr. Cook's experience in valuing product lines, his training in retail merchandising, and his experience working for E&R gave him greater knowledge in valuing a new crystal collectible product than the average layman regardless of the jury's ability to decide for itself whether the product line was aesthetically pleasing that it would be well received in the market. Mr. Cook used the initial response of retailers to the product line and the opinions of others in the giftware industry to determine the value of the Crystal Signatures product line; this was a rational basis for an expert opinion. The court's finding that Mr. Cook was qualified to testify as an expert on valuing the product line at issue was not erroneous.

b. Mr. Cook's testimony

The court allowed Mr. Cook to testify to statements made by other people in the giftware industry about Mr. Russo's reputation in the industry and Mr. Russo's accuracy in making projections. Defendants claim this was inadmissible hearsay. Defendants concede that an expert can testify to hearsay statements if the expert relied on those statements in reaching his opinion and they are the

type of statements upon which experts in the field customarily rely. *See In re Japanese Electronic Products Antitrust Litigation*, 723 F.2d 238, 277 (3d Cir. 1983), *rev'd on other grounds*, 475 U.S. 574 (1986).

Mr. Cook testified that Price Waterhouse has a policy requiring a background check on a person before the company will prepare prospective financial information for that person. Mr. Cook stated that the purpose of this background check is to verify the reliability of assertions made by the person or entity for whom the financial projections are prepared. Before Mr. Cook would rely on a client's assertions in doing his valuation work, he had to have confidence in the reliability of the person making them.

In preparing the Crystal Signatures projections, Mr. Cook relied in part on projections prepared by Mr. Russo. Therefore, Mr. Cook had to check Mr. Russo's reputation for accuracy in the giftware industry. Mr. Cook's statement that he did not rely on the background check of Mr. Russo in formulating his opinion must be taken in the context of what he had already said. The opinion to which he was referring at that time was the final damages projection. Mr. Cook earlier had testified that he did rely on the background check of Mr. Russo in formulating his opinion that Mr. Russo's sales projections were reliable. He then used those sales projections in formulating his ultimate opinion on damages. Mr. Cook reasonably relied on the statements of people in the giftware industry in formulating his opinion in accordance with the standard and accepted practice in his field; therefore, it was permissible for him to testify about those statements.

c. Defendants' expert witness

Defendants complain that the testimony of their expert witness, Margaret McKinley, was unfairly limited to the testimony she gave in her depositions. At trial, plaintiff argued that Ms. McKinley should not be permitted to criticize Mr. Cook's testimony or the method of reaching his result except to the extent she had been critical in her depositions. The court reviewed Ms. McKinley's deposition testimony and then informed counsel and Ms. McKinley of those opinions to which Ms. McKinley was limited based on her deposition testimony. Defendants argue that such a limitation was improper.

At the final pretrial conference on May 21, 1991, the court informed counsel that experts might not testify to anything not provided to the opposing party in advance either by answers to interrogatories, by deposition, or by expert report. The court specifically stated that Mr. Russo, plaintiff's witness, would not be allowed to express any opinions he had not already expressed. The court then stated that the information in Ms. McKinley's report would be the extent of her testimony.

Although the court made its order perfectly clear prior to trial, defendants attempted to have their expert testify to previously undisclosed opinions about the reliability of Mr. Cook's projections. When plaintiff objected, the court reviewed the depositions of Ms. McKinley. The court found that plaintiff had repeatedly asked Ms. McKinley the basis for disagreement with the projections. Therefore, the court limited Ms. McKinley's testimony to those opinions of which plaintiff had notice.

Defendants argue that a defense expert cannot be limited to opinions given prior to trial because the expert does [sic] not yet heard plaintiff's expert's testimony. That is not a valid argument because plaintiff's expert was also limited to those opinions of which he gave defendants notice prior to trial. Therefore, each side had notice and an opportunity to respond to the testimony of the other's experts. This procedure, consistent with Local Rule 21, assures that neither side is unfairly surprised by the expert testimony at trial.

Defendants contend that they know of no principle that allows limitation of a defense expert's criticism of plaintiff's expert's testimony by reference to the defense expert's pretrial deposition. The Federal Rules of Civil Procedure apply to defendants as well as plaintiffs. Rule 37(b)(2)(B) gives the court the power to prohibit a party who fails to comply with an order for discovery under Rule 26(f) from introducing designated matters into evidence. The Court of Appeals has upheld an order preventing a plaintiff from using any expert testimony at all because of the plaintiff's failure to give notice of the basis for the expert's opinion despite repeated requests from the defendants. *See Hagans v. Henry Weber Aircraft Distrib., Inc.*, 852 F.2d 60 (3d Cir. 1988). In another case, the Court of Appeals upheld a district court's exclusion of a witness' testimony where counsel represented at a pretrial conference that the witness would only be relying on specific data but, at trial, it became apparent that the witness has relied on additional data. *See United States v. 68.94 Acres of Land in Kent County*, 918 F.2d 389, 396-97 (3d Cir. 1990).

This court informed counsel that expert witnesses would not be permitted to testify to undisclosed opinions. The court's limitation on Ms. McKinley's testimony was an appropriate sanction under Rule 37 for defendants' failure to disclose all the bases for its expert's opinions. Defendants having failed to disclose fully the opinions of their expert, have no grounds for new trial because the testimony of their expert was limited at trial at the request of plaintiff.

Defendants further claim that Ms. McKinley was admonished to answer only "yes" or "no" to clearly misleading questions. The court instructed Ms. McKinley to answer "yes or no or I can't answer" if the question was susceptible of such an answer. (N.T. 6/12/90 at 36) The court told the witness that defendants' attorney would have the opportunity to bring out anything else on redirect. The court's instruction was clearly proper. The court had similarly restricted Mr. Russo's testimony on cross-examination; Mr. Russo asked if he could explain an answer and the court informed him he would have to wait for redirect. (N.T. 6/7/90 at 12)

Defendants contend that the court favored plaintiff by allowing plaintiff's witnesses great freedom in their testimony and restricting defendants' cross-examination. Defendants have not pointed to any testimony of plaintiff's expert of which defendants were not given notice prior to trial. Defendants admit they chose not to object to any of Mr. Cook's testimony. The record of this extended trial clearly reveals that both sides were treated fairly by the judge; the record clearly shows it was the jury, not the judge, that favored the plaintiff based on the evidence at trial.

2. Prejudicial Trial Errors

Defendants claim they are entitled to a new trial because of prejudicial trial errors relating to whether defendants' conduct caused Crystal Signatures' failure in the marketplace. They contend hearsay testimony about the Metcalfe letter was improperly admitted, defendants' cross-examination of Mr. Russo was unfairly restricted, and plaintiff's counsel knowingly elicited false testimony about late deliveries.

a. Hearsay testimony

Mr. Russo testified that the Metcalfe letter (implying that E&R Co. was not authorized to use the Swarovski name) had a devastating effect on the marketing of Crystal Signatures as well as the reputation of Ebeling & Reuss. He claimed retailers would not buy Crystal Signatures because they thought the product line was not authentic, that is, not made by Swarovski; authenticity is very important in the collectibles industry. Over defendants' objection, the court allowed Mr. Russo to testify to what his salespeople reported to him about their experiences trying to sell Crystal Signatures after the Metcalfe letter and what the salespeople told him the retailers had said.

Defendants complain in particular that Mr. Russo testified that "unidentified retailers were saying to the unidentified salesmen [] that 'this merchandise is counterfeit, it's not authentic and, therefore, we will not buy it.' " (Def. Brief at 36) Defendants mischaracterize Mr. Russo's testimony. Mr. Russo testified that his salesmen

"had to deal with so many negatives trying to sell the line that they became afraid of it." (N.T. 6/5/90 at 99) When the court asked Mr. Russo to clarify what he meant when he said "it," Mr. Russo testified as follows:

> It refers to the attitude in the marketplace that said this merchandise is counterfeit, it's not authentic and, therefore, we will not buy it. And, so they couldn't sell it. (N.T. 6/5/90 at 100)

Defendants moved to strike this answer and the court denied the motion.

Defendants classify this statement as classic hearsay. The Federal Rules of Evidence define hearsay as "a statement, other than one made by the declarant while testifying at the trial or hearing, offered in evidence to prove the truth of the matter asserted." Fed. R. Evid. 801(c). Mr. Russo's testimony was intended to prove that Ebeling & Reuss's reputation in the marketplace was harmed by the Metcalfe letter and that retailers would not buy Crystal Signatures. Clearly, Mr. Russo's testimony was not intended to prove that the merchandise was in fact counterfeit or not authentic. At most, only the phrase "we will not buy it" was offered for the truth of the matter asserted in Mr. Russo's explanation of why salespeople were not selling his product line.

Mr. Russo did not claim that a particular retailer said "we will not buy it." He testified that the attitude in the marketplace was that retailers would not buy Crystal Signatures because its authenticity had been questioned. Therefore, "we will not buy it" is not a statement, *i.e.*, an assertion or nonverbal conduct intended by the person as

an assertion, because there was no declarant. *See* Fed. R. Evid. 801(a)&(b).

Even if the court had admitted the complained of testimony in error, any such error was harmless. Mr. Russo testified that, as a result of the Metcalfe letter, he personally had to spend much time traveling around the country discussing the authenticity of the line and Ebeling & Reuss' permission to use the name. He further stated that Helmut Swarovski had admitted the Metcalfe letter was very damaging to Crystal Signatures. Martin Halusa also agreed the letter never should have been sent. The transcript contains ten pages of Mr. Russo's testimony about the effect of the Metcalfe letter. (N.T. 6/5/90 at 96-106) There was clearly sufficient credible evidence of the effect of the Metcalfe letter without the testimony to which defendants objected.

b. Defendants' Cross-Examination Restricted

Defendants argue that the court unfairly restricted cross-examination of Mr. Russo and Mr. Cook. During cross-examination of Mr. Russo, defendants wanted to display to the jury several exhibits not yet admitted into evidence. The court informed defense counsel that he could display exhibits already admitted and part of any exhibit not yet admitted if he were using that part during his cross-examination.

During his cross-examination of Mr. Russo, defense counsel attempted to display to the jury documents not yet in evidence. The court again explained to defense counsel that defendants could call Mr. Russo during their

own case, but they could not introduce exhibits not in evidence during plaintiff's case. (N.T. 6/7/90 at 6-9) When defense counsel again tried to display an exhibit not yet in evidence, the court once again informed him he could not display it to the jury. Defense counsel responded that he would not proceed with his cross-examination, but would examine Mr. Russo during the defendants' case instead. Defense counsel then stated that he found the court's instructions on how he could conduct the cross-examination so limiting as to be prejudicial. (N.T. 6/7/90 at 25)

It is well-established in the federal courts and a majority of states that cross-examination is properly limited to matters raised on direct examination and impeachment. *See McCormick on Evidence* § 21 (2d Ed. 1979). The court, in its discretion, may prohibit a party from introducing evidence during the presentation of its opponent's case. The court properly prohibited defendants from going beyond the scope of Mr. Russo's direct testimony during cross-examination. The court informed defense counsel that he could not introduce all documents that might be admissions of plaintiff during his cross-examination of plaintiff's witness. Defense counsel could ask questions about any part of a document that pertained to the cross-examination of Mr. Russo but introduce the entire document in defendants' case. (N.T. 6/7/90 at 7) Defense counsel made a strategic decision to wait to question Mr. Russo until defendants' case.

Defense counsel also claims he was improperly restricted in his examination of Mr. Cook. Defendants refer to a remark made by the court during cross-examination of Mr. Cook during plaintiff's rebuttal. Defense

counsel wished to question Mr. Cook about weekly order reports that were not in evidence. The court stated that defense counsel had no reason to believe the reports would become part of the record. (N.T. 6/14/90 at 74) At this point, defendants had already rested without offering the reports as exhibits. Defendants were not prejudiced by the court's statement that counsel had no reason to believe the reports would be admitted.

c. False Testimony

Defendants contend the court committed prejudicial error in ruling that cross-examination was an adequate curative if plaintiff's counsel had knowingly elicited false testimony. During direct examination of Mr. Russo, the court admitted plaintiff's exhibit 156, listing deliveries of Crystal Signatures. (N.T. 6/5/90 at 63) Mr. Russo testified that this list of shipments was E&R Co.'s inventory as of December 31, 1986.

Defendants objected to Mr. Russo's allegedly false testimony about this document. Defense counsel claimed the document was incomplete because it related to only three of the six series of Crystal Signatures product. Defendants argued that testimony the shipments listed on P-156 represented the entire Crystal Signatures inventory must be false since the document related to only a portion of the collection.

The court informed defense counsel that he could cross-examine with regard to P-156 and point out any inconsistencies then. On cross-examination, defense

counsel showed Mr. Russo two additional reports in German. Defendants asserted that these two pages were part of the document introduced as P-156. Mr. Russo could not testify about these pages because he was unable to read German. Defendants did not have these pages translated and, even in their motion for new trial, cannot establish that P-156 was in fact incomplete or that Mr. Russo's testimony was false.

The court is not prepared to order a new trial based on defense counsel's speculation that Mr. Russo's testimony was false. The court is shocked that defense counsel would accuse plaintiff's counsel of intentionally eliciting false testimony without proof.

3. Verdict Against Weight of Evidence

Defendants claim the jury's verdict was against the evidence and the weight of the evidence. Defendants' motion for a new trial essentially takes each jury finding and argues that no credible evidence was introduced to support a finding for plaintiff.

Defendants ask the court to discount Mr. Russo's testimony because they claim Mr. Russo defrauded defendants, Alco Standard, and the institution financing the E&R, Ltd. purchase of E&R Co. from Alco Standard. Defendants allege Russo delayed delivery of merchandise to E&R Co. so E&R, Ltd. did not have to pay as much to buy it from Alco Standard. Mr. Russo testified that he delayed the orders for other reasons and that additional

bank financing was available had E&R Co. acquired additional merchandise in inventory because the bank financing was asset-based lending. In asset-based lending, the amount of a bank loan is proportional to the value of the assets. Mr. Russo's explanation of the delay was credited by the jury. The court is not willing to discount his testimony.

Defendants claim that E&R, Ltd. could not have financed purchase of the quantities required under the contract and therefore could not have made the profits plaintiff claimed. Plaintiff introduced testimony from its banker, Mr. Richard Slimmer of Bucks County Bank, who stated that the bank was ready and willing to loan E&R, Ltd. sufficient funds. Mr. Slimmer's testimony was credible.

Defendants discount Mr. Russo's testimony for lack of credibility and then argue that there is no credible evidence of harm from the Metcalfe letter or Swarovski's late deliveries. Plaintiff was not required to introduce the best possible evidence or all the available evidence to prove its claims. Testimony of retailers that they would not buy Crystal Signatures because of the Metcalfe letter or that they thought less of Ebeling & Reuss after receiving the Metcalfe letter would have been stronger proof of harm to E&R. However, Mr. Russo personally experienced the reaction of retailers after receiving the letter and was competent to testify to the Metcalfe letter's effect. Mr. Russo's testimony about its harm was credible.

Similarly, Mr. Russo was competent to testify to Swarovski's late deliveries of crystal figurines ordered.

Defendants contend that Ms. McKinley's expert testimony rebuts testimony of late deliveries. However, defendants' evidence showed that E&R Co. received "substantial quantities of 22 out of the 44 figurines it ordered." Defendants' Motion for New Trial at 12. That evidence does not contradict Mr. Russo's assertion that Swarovski was delivering late.

Defendants argue that the evidence showed Alco Standard's financial strength was important to Swarovski in deciding to contract with E&R Co. The jury found that the sale of E&R Co. entitled Swarovski to terminate the contract. Defendants further argue that plaintiff introduced no credible evidence of waiver of the right to terminate the contract or failure to notify plaintiff of the termination. The jury could reasonably have found defendants' actions after March 31, 1988 amounted to a refusal to modify the contract, not a termination. *See supra* III.A.1.d.

Defendants moved the court to strike all of Mr. Cook's testimony because of his alleged attempted fraud on the court. Defendants are arguing about Mr. Cook's opinion of Swarovski's value. This opinion was not in evidence; the parties stipulated that Swarovski's net worth was in excess of $200 million; only that stipulation as to value was before the jury. Defendants contend Mr. Cook's method of valuing Swarovski is so inherently flawed that it was intended to deceive the court and therefore tainted all of Mr. Cook's testimony. Mr. Cook readily admitted his method for valuing the Swarovski companies. He never tried to conceal the basis for his opinion from the court. Defendants disagreement with Mr. Cook's methodology in valuing a company is not

relevant to his ability to determine projected profits for a new product line. The court will not strike plaintiff's expert testimony based on an opinion not in evidence.

In arguing for a new trial based on the weight of the evidence defendants understandably ignore their failure to comply with the court's preliminary injunction, affirmed on appeal. The evidence at trial established that defendant offered false and deceptive evidence on impossibility of performance at the preliminary injunction hearing. While refusing to manufacture Disney figurines for Ebeling & Reuss, defendants' manufacturing capacity was utilized to manufacture the Crystal Collectibles product line for Zales in breach of the contract with plaintiff. The jury's verdict on breach of contract, fraud and damages was in accord with the evidence; only a verdict for defendants would have been so against the weight of the evidence that a grant of a new trial would have been warranted.

4. Lack of Notice of Claims

Defendants contend that plaintiff changed its theory of recovery from that in the amended complaint. Defendants argue that they did not have notice of the theories which plaintiff submitted to the jury at trial and thus were severely prejudiced.

a. Plaintiff's pretrial tactics

Defendants accuse plaintiff's counsel of intentionally attempting to obscure its theory of recovery by submitting a pretrial memorandum that was so overinclusive it gave no notice of plaintiff's intentions at trial as required by Local Rule 21(c). Defendants' counsel was therefore unable to focus trial preparation on matters that would be raised at trial.

Plaintiff's pretrial memorandum was 124 pages long, with a 150 page supplemental pretrial memorandum. Even for this long and complicated case, plaintiff's pretrial was overinclusive, but somewhat warranted by defendants' pretrial conduct in changing defense counsel and tactics. Plaintiff certainly was not required to introduce every document and call every witness listed in its pretrial memorandum. Plaintiff should have been able to narrow the witness list and exhibit list by the end of discovery when the pretrial memorandum was due.

However, defendants were not prejudiced by this conduct. Plaintiff's pretrial memorandum explained its theory of the case in its 42 page statement of the facts. Plaintiff listed 41 legal issues to be decided at the trial. Clearly, after a preliminary injunction hearing, and two years of discovery, defendants knew what plaintiff would most likely rely on at trial. Plaintiff called Mr. Russo and Mr. Cook, two witnesses that defendants knew must testify for plaintiff to prove its case. Defendants were obviously prepared to respond to those witnesses.

b. Change in theories

(1) Contract terms

Plaintiff claimed Swarovski breached an exclusive distribution agreement for the product line Crystal Signatures. Defendants argue that in its complaint and pretrial memorandum plaintiff defined product line as those figurines E&R designed or Peter Yenawine designed for E&R. At trial, plaintiff attempted to prove the contract was for all figurines manufactured by Swarovski using the injection molded technology.

Defendants offer no representation made by plaintiff that would limit "product line" in the way defendants suggest. Plaintiff's amended complaint refers to the line of unfaceted injection molded crystal figurines and also to the Crystal Signatures' line. Defendants simply misunderstood what plaintiff meant when it used the term "line." This was not the fault of plaintiff nor due to any ambiguity plaintiff created. Defendants' misunderstanding of plaintiff's use of the word line does not warrant a new trial. Plaintiff made its interpretation clear early in the proceedings and defendants could have rebutted plaintiff's definition; in fact defendants tried to do so.

(2) Draft Written Agreements

Defendants claim plaintiff contended before trial that the draft written agreements were evidence of the terms of the oral agreement, but plaintiff attempted to prove a different contract at trial than that evidenced by the draft written agreements. Plaintiff claimed that inconsistencies between the agreement it was attempting to prove and

the draft agreements were fraudulent attempts by defendants to trick plaintiff into altering the agreement.

At trial, plaintiff's proof of the terms of the contract did not differ entirely from the draft agreements. The parties were negotiating for a new written contract which had been through several revisions. Defendants cite no pretrial statement of plaintiff claiming the contract was exactly the same as the draft agreements. Defendants did not complain of surprise at trial and defendants have not shown how they were harmed.

(3) Assignment of Claim

Defendants contend plaintiff never claimed it was the successor to any claim for pre-March 31, 1988 damages until the middle of trial. The court is at a loss to understand how defendants could not have been on notice of that claim after reading plaintiff's amended complaint and plaintiff's pretrial memorandum. Plaintiff's pretrial memorandum listed the agreement of sale with Alco Standard Corp. as an exhibit. Pl. Pretrial Memorandum at 87. Defendants could have investigated the extent of the assignment by simply reading the contract which was presumably provided during discovery.

Plaintiff clearly demanded damages for pre-March 31, 1988 losses in its amended complaint. The amended complaint is full of references to conduct which occurred in 1985, 1986, and 1987. *See, e.g.*, Amended Complaint at ¶¶ 25, 28, 29, 35, 37, 39, 42, 43, 47, 51, 52, 71, 94. Plaintiff's pretrial memorandum also alleges harm to Ebeling & Reuss Company prior to March 31, 1988. *See* Pl. Pretrial

Memorandum at 5-41. Stressing the claim was unnecessary until new defense counsel contended E&R Ltd. could not assert any rights of E&R Co. Defendants really object that this tactic overlooked the assignment and was ultimately unsuccessful.

(4) Theft of Trade Secrets

Defendants request a new trial on the theft of trade secrets claim because they did not have notice of it prior to trial. However, defendants knew of the evidence supporting that claim and that plaintiff's claim for unfair competition encompassed trade secrets.

At the conclusion of the evidence, plaintiff moved to conform the pleadings to the proof by adding a count for theft of trade secrets. After discussing the motion and the trade secrets claim with the parties, the court stated its view that the trade secrets claim was really just supportive of plaintiff's claim for unfair competition but allowed the jury to answer an interrogatory on the trade secrets claim. The court is still of the view that plaintiff's theft of trade secrets claim was properly before the jury. However, defendants' surprise, if any, is immaterial because the court will enter judgment notwithstanding the verdict on the jury's general finding on unfair competition and disallow damages on the theft of trade secrets claim for the reasons stated above. *See supra* III.A.5&6.

(5) Tortious Interference

Defendants admit that plaintiff claimed SAL interfered with E&R's right to use the Swarovski name. However, they contend it was not until the charging conference that it became clear plaintiff was claiming SAL tortiously interfered with plaintiff's contract with the other defendants. Although the court believes defendants were clearly on notice of the basis for the tortious interference claim, it is immaterial because the court will set aside the tortious interference findings for the reasons stated above. *See supra* III.A.2.

(6) Fraud

Plaintiff's amended complaint and pretrial memorandum complained of Swarovski's fraud in entering the contract without intending to honor it or continuing the contract in order take over the program for its own advantage. All of the fraudulent acts plaintiff claimed at trial related to the fraud alleged prior to trial. Plaintiff was not required to identify separately each individual act of which defendants' alleged fraud was comprised. There was no prejudicial surprise.

(7) Damages

Plaintiff's pretrial memorandum failed to specify the reputation damages and the reliance damages it was claiming. Defendants did not object to the jury interrogatories on those damages. Defendants obviously were not surprised by those demands and cannot come before

the court now asking for a new trial on a technicality that did not prejudice them. Even if there were any surprise, it would be immaterial because the reputation damages will be set aside for the reasons set forth above. *See supra* III.B.2.

c. Notice of Bases of Claims

Defendants claim their counsel was demonstrably confused at trial by plaintiff's change in theories. If defendants' counsel was confused, it was certainly not demonstrable and his confusion, if any, was not caused by plaintiff. Defendants obtained new counsel after plaintiff obtained a preliminary injunction against them, and moved to recuse the judge after that. Now that plaintiff has prevailed at trial, defendants blame the result on defense counsel who was and is an extremely able attorney. The case was vigorously tried by counsel and now the record has been picked apart on behalf of the defense. But this case was not lost by counsel; it was the facts properly in evidence that damaged the defendants. The blame rests not with plaintiff, plaintiff's counsel, plaintiff's witnesses or experts, the judge, confusion of the jury, or defendants' counsel. It was the evidence of defendants' conduct that resulted in this verdict.

d. Erroneous Prejudicial Rulings

(1) Plaintiff's Exhibit 26

Defendants complain that the court precluded defendants from adducing evidence that P-26 came from plaintiff's files. Plaintiff's exhibit 26 was a memorandum from

Peter Yenawine to Helmut Swarovski that listed arguments for Helmut Swarovski to convince the Beirat to allow E&R Co. use of the Swarovski name. When plaintiff originally listed P-26 in its pretrial memorandum, plaintiff identified P-26 as an E&R document. However, at trial, plaintiff identified P-26 as a discovery document produced by Peter Yenawine.

When defendants attempted to cross examine Mr. Russo on P-26, plaintiff's counsel interjected that P-26 was a Peter Yenawine document. Defense counsel objected to the change in identification of the document. Plaintiff's counsel represented to the court that P-26 was a Peter Yenawine document received by plaintiff in document production prior to the preliminary injunction hearing and initially misidentified as coming from E&R's files. The court was entitled to rely on this representation from an officer of the court; the court did not improperly limit defendants use of P-26.

Later in the proceedings, the court gave a limiting instruction to the jury that the statements in P-26 could not be used against plaintiff unless the jury found that Mr. Russo had knowledge of the contents of P-26 prior to the litigation. Defendants argue that plaintiff could be charged with knowledge of P-26 if anyone at E&R Co. or Alco Standard knew of its contents at the time the E&R – Swarovski relationship was beginning. If defendants had any evidence that anyone else from E&R or Alco Standard knew of P-26, defendants could have asked the court for a curative instruction to the jury. Defendants did not introduce any such evidence nor did they object to the court's instruction. This jury instruction does not require a new trial.

(2) Plaintiff's Exhibit 12

Defendants complain that Mr. Russo was allowed to give his opinion of the meaning of the words in P-12 but defendants' witness, Kurt Mignon, the author of P-12, was not allowed to testify about his understanding of the meaning.

Mr. Russo was allowed to testify to his understanding of the terms in P-12. Mr. Mignon was also allowed to testify to his understanding of the agreement. The court correctly stated that Mr. Mignon could not state what the exhibit itself said because the letter spoke for itself. The court's ruling was not erroneous.

D. MOTION FOR DISQUALIFICATION

On October 18, 1989, defendants filed a Motion for Disqualification pursuant to 28 U.S.C. §144 and §455. On October 24, 1989, plaintiff filed its answer in opposition to the defendants' motion. On January 30, 1990, the court denied defendants' motion and stated its reasons to the parties; a written statement of the reasons for denying defendants' motion has not yet been filed and follows.

In *Mims v. Shapp*, 541 F.2d 415 (3d Cir. 1976), the Court of Appeals held that a district judge faced with a motion for disqualification under 28 U.S.C. §144, must accept the allegations of the moving party as true, stating:

> On such a motion it is the duty of the judge to pass only on the legal sufficiency of the facts alleged to ascertain whether they support a charge of bias or prejudice. Neither the truth of the allegations nor the good faith of the pleader

> may be questioned, regardless of the judge's knowledge to the contrary. The test is whether, assuming the facts alleged, a reasonable person would conclude that a personal as distinguished from a judicial bias exists.

541 F.2d at 417 (citations omitted). Once the allegations of the moving party are accepted, the Court of Appeals has made clear that a judge is disqualified only for extrajudicial bias. *Johnson v. Trueblood,* 629 F.2d 287, 290-91 (3d Cir. 1980), *cert. denied,* 450 U.S. 999 (1981).

> "Extrajudicial bias" refers to a bias that is not derived from the evidence or conduct of the parties that the judge observes in the course of proceedings. *See United States v. Grinnell Corp.,* 384 U.S. 563, 580-82, . . . (1966). Normally, the judge's rulings at trial do not constitute grounds for recusal because they can be reversed on appeal. *See Smith v. Danyo,* 585 F.2d 83, 87 (3d Cir. 1978).

Id. at 291. "The relevant inquiry is whether the trial judge's comments are linked to [her] evaluation of the case . . . or whether the comments were based on purely personal feelings towards the parties and the case." *Id.* Both 28 U.S.C. §144 and §455 require the same type of bias for recusal. *Id.* at 290.

Defendants claimed it was improper for the court at a pretrial status conference to question defendants' former counsel on whether there were laws against involuntary servitude in Austria, Switzerland, and Liechtenstein, after defendants' counsel suggested that the countries (where conduct relevant to conduct at issue occurred) might have constitutional provisions or laws equivalent

to our Thirteenth Amendment. It is not evidence of extra-judicial bias for the court to question whether such laws exist in the absence of proof. *See* Fed. R. Civ. P. 44(a)(2) and 44.1. After defense counsel could not answer the court's question, the court replied that maybe those countries had in recent years adopted such laws. Defendants assert that the court's answer to its own query "doubtless refer[s] to the past." Defendants' Brief at 7.

Defendants' brief refers obliquely to the gist of defendants' argument – that this court is prejudiced against these Austrian, Swiss, Liechtenstein, and American defendants because of something that happened in the past and that this court's comments showed bias regarding defendants' nationalities. While the court's comment may have been somewhat irrelevant, it was responsive to remarks of defense counsel and was sufficiently related to the proceedings not to warrant recusal. *See, e.g., United States v. Crovedi,* 467 F.2d 1032, 1039-40 (7th Cir. 1972), *cert. denied,* 410 U.S. 982 (1973); *Senchal v. Carroll,* 394 F.2d 797, 799 (10th Cir.), *cert. denied,* 393 U.S. 979 (1968).

Defendants next complained that the record for the same conference reveals that plaintiff's counsel "appears to have attempted to influence the Court by appealing to prejudice based on the nationality of the defendants." Defendants' Brief at 3. In the colloquy cited, it is clear that the court was tired of plaintiff's counsel's use of the term "red herring" to describe defendants' challenge to the court's jurisdiction and that the court was concerned by (indeed, struck from the record) plaintiff's facetious comments about the former Austrian flag. If plaintiff's

counsel were intending to influence the court, the record shows clearly that the court was unmoved. Again, the judge's words on that occasion have nothing to do with its view of the parties or the merits.

Defendants also complained of the court's comment in considering discovery matters that the defendants might not understand or like the litigation process in the United States. As the Court of Appeals noted in *Johnson*, a district judge often can get a feel for a case prior to trial, so that feelings can be based on the conduct of the parties and the evidence. "The relevant inquiry is whether the trial judge's pretrial comments were linked to his evaluation of the case based on the pleadings and other materials outlining the nature of the case, or whether the comments were based on purely personal feelings toward the parties and the case." *Id.* at 291. This comment clearly reflected the court's view of defendants' conduct in this litigation during extended discovery, preliminary hearings, and attempts to encourage settlement negotiations between the parties; it did not reflect personal views or biases.

Defendants complain of the court's personal bias in questioning whether two defense witnesses who testified at prior hearings had been found to be liars. The defendants had failed to comply with a preliminary injunction of July 30, 1988, the issuance of which was affirmed by the Court of Appeals, 866 F.2d 1409 (3d Cir. 1988). The court reserved judgment and deferred ruling, following a contempt hearing on September 14, 15 and October 6, 1988, pending a full presentation of the evidence at trial. Nevertheless, the court had obtained enough information to make a credibility assessment as the finder of fact at

non-jury proceedings; the statement at the subsequent pretrial discovery conference on September 6, 1989, was an evaluation of the credibility of witnesses the court had heard testify. This evaluation was confirmed by the trial record; in any event, it was not improper under *Johnson*.

Finally, defendants argue that the court's discovery rulings amount not only to an abuse of discretion but to evidence of actual bias on the part of the court. The court's decision to enter a scheduling order "to insure the resolution of this dispute in a timely manner . . . do[es] not constitute personal or extrajudicial statements or actions by the court, but rather, concerns actions taken by the court after examining the evidence and legal precedent. Actions taken after reviewing the applicable legal standards and evidentiary record, as opposed to extrajudicial actions, will not support recusal." *Grand Entertainment Group, Ltd. v. Arazy*, 676 F. Supp. 616, 619 (E.D. Pa 1987).

Defendants' complaint of bias in the court's decision in September, 1989 to order that depositions take place in the United States or that defendants pay plaintiff's counsel to go to Europe fails to account for a district judge's power to "make any order which justice requires to protect a party or person from . . . or undue burden or expense." Fed. R. Civ. P. 26(c). The defendants fail to acknowledge that the Order followed preliminary injunction hearings and contempt hearings at which the court gained an understanding of defendants' business and business practices; the court held a conference with full consideration of discovery issues to help the court decide what was fair and reasonable in the circumstances. District courts have broad discretion in trial management

under Fed. R. Civ. Pro. 26(c). *Afram Export Corp. v. Metallurgiki Halyps, S.A.*, 772 F.2d 1358, 1365 (7th Cir. 1985), and its exercise is not ground for recusal.

The filing of a motion of recusal accompanied by an affidavit by an attorney does not automatically disqualify the target judge. *Grand Entertainment Group, Ltd.*, 676 F. Supp. at 619. To the contrary, "[w]hile the judge has an affirmative duty to disqualify himself should the affidavit set forth sufficient allegations concerning bias, the judge has an equally affirmative duty to retain the case should the affidavit lack sufficient allegations or fail to generate a reasonable doubt concerning the judge's impartiality." *Id.* Defendants allegations did not meet the definition of extrajudicial bias required to support a motion for recusal; new counsel for the defendants simply searched the record for a reason to disqualify the judge who had ruled against the defendants in preliminary matters. For that reason, it would have been improper to grant defendants' motion on the grounds stated above.

IV. PLAINTIFF'S MOTIONS

A. New Trial

Plaintiff conditionally moved for a new trial on damages in the event defendants were granted a new trial on any issue. Since the court has denied defendants' motion for a new trial on any issue, plaintiff's motion for a new trial is deemed withdrawn.

B. Amend Verdict

Plaintiff moved the court to amend the verdict to award nominal damages on its trademark and unfair competition claims. The jury found in favor of plaintiff on the trademark and unfair competition claims but failed to award plaintiff any additional compensatory damages. (*See* Appendix C) Since the court has granted judgment notwithstanding the verdict on those counts, the verdict will not be amended to reflect nominal damages.

C. Additur on Punitive Damages

Plaintiff, moving for additur on the punitive damages, claims defendants fraudulently concealed their true net worth. During the trial, after some disagreement on the offer of proof on Mr. Cook's opinion of Swarovski's net worth, the parties stipulated that Swarovski's net worth was in excess of $200 million. Plaintiff claims defendants' true worth is in excess of $2 billion, ten times greater than the figure the jury considered; therefore, the punitive damages should also be increased by a factor of ten.

Defendants' financial worth was the subject of much discussion during the trial. The parties were given the option of delaying determination of punitive damages until the parties could conduct discovery on defendants' financial worth. Both parties agreed to proceed with the trial without further delay by stipulating that defendants financial worth was in excess of $200 million. Plaintiff made a tactical decision at the time to continue with a jury that had already ruled favorably for Ebeling &

Reuss. The court questions its authority to add to a jury verdict and would decline to do so even if it had the power. Plaintiff's motion for additur will be denied.

D. Motion for Contempt

The court heard argument on the motion for contempt but reserved ruling on the motion until after the trial. Following the trial, the parties requested that the court defer ruling on the motion for contempt until after the post trial motions were decided. Plaintiff will be given the opportunity to inform the court whether it wishes to proceed with the motion for contempt.

E. Motions for Attorneys' Fees

Plaintiff filed a motion for attorneys' fees in connection with its trademark claims and a motion for attorneys' fees in connection with the contempt proceedings. Since the court granted judgment notwithstanding the verdict on the trademark claims, plaintiff is not entitled to recover attorneys' fees for prosecuting that claim.

The motion for attorneys' fees for the contempt proceedings will be deferred until decision on the motion for contempt.

V. CONCLUSION

For the foregoing reasons, defendants' motion for judgment notwithstanding the verdict will be granted in part and denied in part, defendants' motion to alter or

amend the verdict will be granted in part and denied in part, and defendants' motion for a new trial will be denied.

Plaintiff's motion for a new trial will be deemed withdrawn; plaintiff's motions to amend the verdict, for additur, and for attorneys' fees on the trademark claims are denied. Plaintiff shall promptly inform the court whether it wishes to pursue the motions for contempt and attorneys' fees for the contempt claim.

An appropriate order follows.

APPENDIX A

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY	:	CIVIL ACTION
v.	:	(Filed June 2, 1990)
SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., individually and d/b/a D. SWAROVSKI & CO. and SWAROVSKI AMERICA LIMITED and SWAROVSKI AKTIENGELSELLSCHAFT	:	NO. 88-4878 MICHAEL E. KUNZ, Clerk By /s/ Dep. Clerk

SPECIAL INTERROGATORIES TO THE JURY

A. Contract:

1. Has plaintiff proved by a preponderance of the evidence that the course of dealings between the Ebeling & Reuss Division of Alco Standard Corporation and the Swarovski defendants created an enforceable contract that the Swarovski defendants breached?

Yes X No _

2. If your answer to interrogatory 1 was "yes," has plaintiff proved by a preponderance of the evidence that a breach of contract prior to March 31, 1988 caused harm to the Ebeling & Reuss Division of Alco Standard Corporation?

Yes X No _

3. If your answer to interrogatory 1 was "yes," has plaintiff proved by a preponderance of the evidence

that a breach occurred after March 31, 1988 that caused harm to Ebeling & Reuss, Ltd.?

Yes X No _

4. If your answer to interrogatory 3 was "yes," have the Swarovski defendants proved by a preponderance of the evidence that the sale of the Ebeling & Reuss Division of Alco Standard Corporation and incorporation of Ebeling & Reuss, Ltd. entitled the Swarovski defendants to terminate the contract?

Yes X No _

5. If your answer to interrogatory 4 was "yes,"

   a. Did the Swarovski defendants inform Ebeling & Reuss, Ltd. of the termination?

   Yes _ No X

   or

   b. Has plaintiff proved by a preponderance of the evidence that the Swarovski defendants waived a right to terminate the contract?

   Yes X No _

6. If your answer to interrogatory 4 or 5a was "no," or if your answers to interrogatory 4 and 5b were "yes," has plaintiff proved by a preponderance of the evidence that a breach of contract subsequent to March 31, 1988 caused harm to Ebeling & Reuss, Ltd.?

Yes X No _

B. Promissory Estoppel:

1. Has plaintiff proved by a preponderance of the evidence that the Swarovski defendants made certain promises to the Ebeling & Reuss Division of Alco Standard Corporation concerning the manufacture, packaging and sale of injection molded crystal miniature figurines called Crystal Signatures that were breached by the defendants?

Yes X No _

2. If your answer to interrogatory 1 was "yes," has plaintiff proved by a preponderance of the evidence that the Ebeling & Reuss Division of Alco Standard Corporation acted in a reasonable reliance on these promises?

Yes X No _

3. If your answer to interrogatory 2 was "yes," has plaintiff proved by a preponderance of the evidence that the Ebeling & Reuss Division of Alco Standard Corporation was injured by the Swarovski defendants' breach of promises?

Yes X No _

4. If your answer to interrogatory 1 was "yes," has plaintiff proved by a preponderance of the evidence that Ebeling & Reuss, Ltd. acted in reasonable reliance on these promises?

Yes X No _

5. If your answer to interrogatory 4 was "yes," have defendants proved by a preponderance of the evidence that the sale of the Ebeling & Reuss Division of Alco Standard Corporation and incorporation of Ebeling & Reuss, Ltd. on March 31, 1988 excused the

Swarovski defendants from performance of their promises?

Yes _ No X

6. If your answer to interrogatory 5 was "yes," has plaintiff proved by a preponderance of the evidence that the Swarovski defendants waived the excuse so that the promises remained enforceable after the take-over?

Yes _ No _

C. Tortious Interference With Contract:

1. Has plaintiff proved by a preponderance of the evidence that Swarovski America Limited caused harm to the Ebeling & Reuss Division of Alco Standard Corporation by wrongfully interfering with its existing or prospective contractual relations with the other Swarovski defendants?

Yes X No _

2. Has plaintiff proved by a preponderance of the evidence that Swarovski America Limited caused harm to Ebeling & Reuss, Ltd. by wrongfully interfering with the existing or prospective contractual relations with the other Swarovski defendants?

Yes X No _

3. Has plaintiff proved by a preponderance of the evidence that any of the following defendants caused harm to the Ebeling & Reuss Division of Alco Standard Corporation by wrongfully interfering with its existing or prospective contractual relations with people or businesses other than the Swarovski defendants:

Swarovski International Trading Corporation, A.G. individually and doing business as D. Swarovski & Co.

Yes X No _

Swarovski America Limited

Yes X No _

Swarovski Aktiengelsellschaft

Yes _ No X

4. Has plaintiff proved by a preponderance of the evidence that any of the following defendants caused harm to Ebeling & Reuss, Ltd. by wrongfully interfering with its existing or contractual relations with people or businesses other than the Swarovski defendants:

Swarovski International Trading Corporation, A.G. individually and doing business as D. Swarovski & Co.

Yes X No _

Swarovski America Limited

Yes X No _

Swarovski Aktiengelsellschaft

Yes _ No X

D. Fraud:

1. Has plaintiff proved by clear, precise and convincing evidence that any Swarovski defendant(s) intentionally misrepresented or intentionally failed to disclose a material fact with the intent to deceive the Ebeling & Reuss Division of Alco Standard Corporation?

Yes X No _

If your answer to interrogatory 1 was "yes," please answer interrogatory 2.

If your answer to interrogatory 1 was "no," please answer interrogatory 3.

2. Has plaintiff proved by clear, precise and convincing evidence that the Ebeling & Reuss Division of Alco Standard Corporation's justifiable reliance on this misrepresentation or failure to disclose caused it harm?

Yes X No _

Please answer interrogatory 3.

3. Has plaintiff proved by clear, precise and convincing evidence that any Swarovski defendant(s) intentionally misrepresented or intentionally failed to disclose a material fact with the intent to deceive Ebeling & Reuss, Ltd.?

Yes X No _

If your answer to interrogatory 3 was "yes," please answer interrogatory 4.

If your answer to interrogatory 3 was "no," please go to page 5.

4. Has plaintiff proved by clear, precise and convincing evidence that Ebeling & Reuss, Ltd.'s justifiable reliance on this misrepresentation or failure to disclose caused it harm?

Yes X No _

E. Conspiracy:

1. Has plaintiff proved by full, clear and satisfactory evidence that any of the following defendants conspired with each other to injure the Ebeling & Reuss Division of Alco Standard by wrongful interference with its existing or prospective contractual relations or by fraud:

   Swarovski International Trading Corporation, A.G. individually and doing business as D. Swarovski & Co.

   Yes X No _

   Swarovski America Limited

   Yes X No _

   Swarovski Aktiengelsellschaft

   Yes _ No X

2. Has plaintiff proved by full, clear and satisfactory evidence that any of the following defendants conspired with each other to injure Ebeling & Reuss, Ltd. by wrongful interference with its existing or or prospective contractual relations or by fraud:

   Swarovski International Trading Corporation, A.G. individually and doing business as D. Swarovski & Co.

   Yes X No _

   Swarovski America Limited

   Yes X No _

   Swarovski Aktiengelsellschaft

   Yes _ No X

/s/
Foreperson

Date: 6/18/90

PLEASE NOTIFY THE DEPUTY CLERK WHEN YOUR DELIBERATIONS HAVE CONCLUDED.

APPENDIX B

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY	:	CIVIL ACTION (Filed 1990)
v.	:	
SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., individually and d/b/a D. SWAROVSKI & CO. and SWAROVSKI AMERICA LIMITED and SWAROVSKI AKTIENGELSELLSCHAFT	:	NO. 88-4878

SPECIAL INTERROGATORIES TO THE JURY

1. In what amount, if any, has plaintiff proved by a preponderance of the evidence that plaintiff suffered monetary loss as a result of defendants' conduct?

	Ebeling & Reuss Div. of Alco Standard Corp.	Ebeling & Reuss, Ltd.	or Plaintiff
Actual Damages	$	$	$850,000
Lost Profits	$	$	$ 25 million
Harm to Reputation	$	$	$ 8 million
TOTAL	$	$	$33,850 million

2. In what amount, if any, has plaintiff proved by a preponderance of the evidence that it is entitled to punitive damages?

Ebeling & Reuss Division of Alco Standard Corp.	Ebeling & Reuss, Ltd.	or	Plaintiff
$	$		$16.5 million

Date: 6/19/90

/s/
Foreperson

PLEASE NOTIFY THE DEPUTY CLERK WHEN YOUR DELIBERATIONS ARE FINISHED.

APPENDIX C

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY	:	CIVIL ACTION (Filed 1990)
v.	:	
SWAROVSKI MANAGEMENT & CONSULTING A.G. and D. SWAROVSKI & CO. and SWAROVSKI AMERICA LIMITED and SWAROVSKI AKTIENGESELLSCHAFT and SWAROVSKI INTERNATIONAL TRADING CORPORATION	:	NO. 88-4878

SPECIAL INTERROGATORIES TO THE JURY

A. Trademark

1. Has plaintiff proved by a preponderance of the evidence that similarity between the name, "Crystal Collectibles," and plaintiff's trademark, "Crystal Signatures," was likely to cause confusion or mislead consumers into believing that the products came from the same source?

Yes X No _

B. Unfair Competition

2. Has plaintiff proved by a preponderance of the evidence that defendants copied the trade dress of plaintiff's "Crystal Signatures"?

Yes X No _

3. Has plaintiff proved by a preponderance of the evidence that plaintiff's trade dress acquired a secondary meaning in the marketplace because it

identified "Crystal Signatures" in consumers' minds as belonging to plaintiff?

Yes X No _

4. Has plaintiff proved by a preponderance of the evidence that defendants created a likelihood of confusion among consumers as to the source of the product by imitation of plaintiff's trade dress?

Yes X No _

C. 5a. Of plaintiff's lost profits in the amount of $25 million, what amount, if any, resulted from the acts of defendants in marketing and selling the "Crystal Collectibles" line through Zales Corporation?

$ Zero

5b. In what amount, if any, has plaintiff proved by a preponderance of the evidence that it is entitled to additional punitive damages for the acts of defendants in marketing and selling the "Crystal Collectibles" line through Zales Corporation?

$2.5 million

D. Misappropriation of Trade Secret

6. Has plaintiff proved by a preponderance of the evidence that defendants wrongfully used a trade secret of plaintiff which caused harm to plaintiff?

Yes X No _

E. Damages

7a. In what amount, if any, has plaintiff proved by a preponderance of the evidence that defendants

profited as a result of their misappropriation of trade secret?

$291,345.–

7b. In what amount, if any, has plaintiff proved by a preponderance of the evidence that it is entitled to additional punitive damages for defendants' misappropriation of trade secret?

$2.5 million

Date: 6/21/90 /s/
Foreperson

PLEASE ADVISE THE DEPUTY CLERK WHEN YOUR DELIBERATIONS HAVE CONCLUDED.

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,	:	CIVIL ACTION
v.	:	
SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., individually and d/b/a D. SWAROVSKI & CO. and SWAROVSKI AMERICA LIMITED and SWAROVSKI AKTIENGELSELLSCHAFT	:	NO. 88-4878

ORDER

AND NOW, this 24th day of August, 1992, upon consideration of: defendants' motion for a new trial, motion for judgment notwithstanding the verdict, and motion to alter or amend the verdict; and, plaintiff's conditional motion for a new trial, motion to amend the verdict, motion for additur, motion for contempt, motion for attorneys' fees on the trademark claim, and motion for attorneys' fees on the contempt claim, it is **ORDERED** that:

1. Defendants' motion for a new trial is **DENIED.**

2. Defendants' motion for judgment notwithstanding the verdict is **GRANTED IN PART** and **DENIED IN PART** as follows:

a. Judgment for plaintiff and against defendants for tortious interference is set aside.

b. Judgment for plaintiff and against defendants for fraud for intentionally misrepresenting or intentionally failing to disclose a material fact with the intent to deceive Ebeling & Reuss, Ltd. is set aside.

c. Judgment for plaintiff and against defendants on the trademark, unfair competition, and trade secret claims is set aside.

d. The damage award under trademark and unfair competition for the acts of defendants in marketing and selling the "Crystal Collectibles" line through Zales Corporation is set aside.

3. Defendants' motion to alter or amend the verdict is **GRANTED IN PART** and **DENIED IN PART** as follows:

a. The damage award for reputation damages is set aside.

b. The damage award for defendants' profit for misappropriation of trade secret is set aside.

c. The punitive damages awards for trademark, unfair competition, and trade secret are set aside.

d. The court will mold the verdict and enter judgment in favor of plaintiff and against defendants in the total amount of $42,350,000.

4. Plaintiff's conditional motion for a new trial is **DEEMED WITHDRAWN.**

5. Plaintiff's motion to amend the verdict is **DENIED.**

6. Plaintiff's motion for additur is **DENIED.**

7. Plaintiff's motion for attorneys' fees for the trademark claim is **DENIED.**

8. Plaintiff shall inform the court by **September 8, 1992** if it wishes to pursue its motions for contempt and attorneys' fees for the contempt claim.

/s/ Norma L. Shapiro
J.

Nos. 92-1723 and 92-1746

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., et al., APPELLANTS and CROSS-APPELLEES

v.

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY, APPELLEE and CROSS-APPELLANT

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF PENNSYLVANIA

HONORABLE NORMA SHAPIRO, UNITED STATES DISTRICT JUDGE

PETITION FOR REHEARING AND REHEARING IN BANC

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I. SUMMARY OF ARGUMENT AND PROCEEDINGS

A. Propriety Of In Banc Review.

Pursuant to Federal Rules of Appellate Procedure 35 and 40, the Appellants and Cross-Appellees here, Defendants below,[1] respectfully move this Court for rehearing and rehearing in banc of the April 7, 1993 Judgment Order in No. 92-1746 affirming the $42,350,000 judgment of the district court against Defendants. Swarovski petitions for rehearing in banc understanding the Court's advice that, "except in rare cases," rehearing in banc is not granted where an appeal was decided by judgment order. Third Circuit Internal Operating Procedures ("IOP"), Ch. 9. They nevertheless make that request here precisely because this is one of those rare instances in which the device of the judgment order has been improperly used to endorse a judgment entered in violation of controlling decisions of this Circuit with respect to (1) the right to terminate a contract of indefinite duration, (2) the applicability of the Statute of Frauds to distribution agreements, and (3) the legal standard of proof of lost profits damages. The Court's disposition of Swarovski's appeal has also created a conflict with the law of other Circuits concerning the right of a court to apportion punitive damages among particular causes of action when the jury did not apportion them and when certain of the tort claims did not survive review. Further, by

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[1] The Defendants, Appellants in No. 92-1746, are Swarovski Management & Consulting, A.G., D. Swarovski & Company, Swarovski Atkiengesellscaft, Swarovski America Limited, and Swarovski International Trading Corporation, A.G., all of which are hereafter referred to as "Swarovski."

employing the device of the judgment order to confirm a judgment which includes an award of $16.5 million in punitive damages – some 8.25% of Defendants, stipulated net worth – the Court has failed in its constitutionally mandated task to review the punitive damage award under the Supreme Court's decision in *Pacific Mut. Life Ins. Co. v. Haslip*, 111 S. Ct. 1302 (1991).[2]

B. Summary Of Prior Proceedings.

The instant case arose out of an alleged exclusive distribution contract between Ebeling & Reuss Limited ("E&R"), an American company engaged in the business of distributing and marketing giftware in the United States, and the largely Austrian based Swarovski Defendants, who are engaged in the manufacture of fine crystal. See App. 2645a. At trial, E&R contended that a series of oral and written communications in late 1985 and early 1986 culminated in an agreement granting E&R the exclusive right to distribute all miniature crystal figurines manufactured by Swarovski's injection molding technology. *See* App. 1776a; 4346a. Although the parties exchanged drafts of a comprehensive written agreement during this time, *see* App. 1979a; 4105-71a; 4140-52a; 4555-64a, it is undisputed that no version of the draft contracts was ever agreed to or executed. During this period, Swarovski filled E&R's purchase orders for the crystal figurines, which E&R marketed under the name

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[2] *See also Dunn v. Hovic*, 1992 U.S. App. LEXIS 22749, 1992 WL 22875 (3d Cir., Sept. 18, 1992) (No. 91-3837), *rehearing granted and opinion vacated* (October 8, 1992).

"Crystal Signatures." However, when the written agreement did not materialize and E&R was sold in a leveraged buyout, Swarovski terminated its relationship with E&R. App. 4396a. Following this termination, E&R filed the instant suit against Swarovski, alleging, *inter alia*, claims for breach of contract and fraud. *See* App. 100a-179a.

At trial, E&R's case consisted primarily of the testimony of Michael Russo, one of its owner/officers, and Stephen Cook ("Cook"), its damage expert. At the conclusion of the trial, the jury rendered a verdict in favor of E&R on all claims, awarding it $34,141,364 in compensatory damages and $21,500,000 in punitive damages. On June 22, 1990, the district court entered judgment on the verdict in the amount of $55,641,364.

Following the entry of judgment, all parties timely filed post-trial motions. The district court ruled on these motions on August 25, 1992, setting aside jury findings on several of Plaintiff's claims, but upholding the jury's findings of liability on breach of contract and on one of the fraud claims. *See* App. 1394a-1477a. The court then entered final judgment against Swarovski in the amount of $42,350,000, consisting of $850,000 in out-of-pocket expenses, $25,000,000 in lost profits, and $16,500,000 in punitive damages. *Id.* It was this judgment that the Panel summarily affirmed by a Judgment Order on April 7, 1993.

II. ARGUMENT

A. THE PANEL MISCONSTRUES THE LAW OF THIS CIRCUIT IN AFFIRMING THE AWARD OF $25 MILLION IN LOST PROFITS ON A CONTRACT OF INDEFINITE DURATION.

E&R's owner/officer testified that the alleged distribution agreement was to continue for "the life of the product cycle," that is, "for as long as the merchandise was selling in the market." App. 1856a. Such an agreement is, as a matter of law, one of indefinite term. *See Excello Wine Co. v. Monsieur Henri Wines, Ltd.*, 474 F. Supp. 203 (S.D. Ohio 1979) (a distributorship contract to last as long as "mutually profitable" was held to be indefinite); *Universal Lite Distribs., Inc. v. Northwest Indus., Inc.*, 602 F.2d 1173, 1175 (4th Cir. 1979) (an oral agreement to last as long as the parties remained in the ballast business was held to be "indefinite in duration"). Consequently, the contract was terminable at will on reasonable notice, *see* 13 Pa. Cons. Stat. Ann. § 2309 (1980); *Weilerbacher v. Pittsburgh Brewing Co.*, 218 A.2d 806, 807 (Pa. 1966), a legal proposition which the trial court failed to comprehend, refusing to give Swarovski's requested instruction in that regard, *see* App. 893a, and erroneously charging the jury that the contract could be given some "reasonable" term of years in direct contravention of the U.C.C. *Compare* 13 Pa. Cons. Stat. Ann. § 2309 *with* App. 3397-98a (charge). *See also* 979a (Memorandum in Support of Motion for Directed Verdict). The error went to the heart of the entire case and would obviate almost all of the $42 million in damages because a terminable-at-will distributorship contract can only support a damage award for

the time necessary to find a new source of supply.[3] Yet no court *at any level of these proceedings* has ever addressed this issue!

The Panel's decision has also totally misapplied a line of Third Circuit decisions which holds that where an agreement is *silent* on duration, the intention of the parties on that point is to be gleaned from the surrounding circumstances and the contract as a whole.[4] Those cases have no application here because instead of being silent the contract in this case contained an express term of duration which was inherently indefinite. Accordingly, the order of affirmance in this case is contrary to the UCC and totally at odds with earlier decisions of this Court.

B. THE PANEL DECISION VIOLATES THE HOLDING OF THIS COURT IN *ADVENT SYSTEMS LTD.* ON THE REQUIREMENTS NEEDED FOR A DISTRIBUTION AGREEMENT TO SATISFY THE STATUTE OF FRAUDS.

In its decision in *Advent Systems Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991), this Court held that a distribution agreement could satisfy the Pennsylvania Statute of

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[3] *See* Pa. Cons. Stat. Ann. § 2309, comment 8; *Jo-Ann, Inc. v. Alfin Fragrances, Inc.*, 731 F. Supp. 149, 160 (D.N.J. 1989); *Circo v. Spanish Gardens Food Mfg. Co.*, 643 F. Supp. 51, 54-55 (W.D. Mo. 1985).

[4] *Institute for Scientific Info., Inc. v. Gordon & Breach, Science Publishers, Inc.*, 931 F.2d 1002, 1009 n.8 (3d Cir.), *cert. denied*, 112 S. Ct. 302 (1992); *Von Lange v. Morrison-Knudsen Co., Inc.*, 460 F. Supp. 643 (M.D. Pa.), *aff'd*, 609 F.2d 504 (3d Cir. 1979); *American Type Founders v. Lanston Monotype Mach. Co.*, 137 F.2d 728 (3d Cir. 1943).

Frauds, despite the absence of any written quantity term, provided there existed a detailed *written* agreement which would "leave no doubt" that the parties intended to create the distribution arrangement. This Court specifically declined the invitation to hold that lost profits damages could be recovered on an alleged distribution agreement where a detailed writing was lacking.

In conflict with the *Advent* decision, the Panel has affirmed the award of $25 million in lost profits damages for breach of a claimed distribution agreement where the writings identified by the proponent of the agreement are wholly insufficient to demonstrate such a definitive, long-term contract. *See* 3863-66a; 3877-86a; 3904a. In its emphasis on the detailed nature of the writing at issue, *Advent* teaches that, in order to satisfy the Statute of Frauds, E&R must have *in writing* sufficient details to demonstrate that the contract between the parties is in fact an exclusive distribution contract obligating Swarovski to satisfy E&R's requirements.[5] None of the terms identified by this Court in *Advent* are present in the writings here. To the contrary, it is undisputed that the writings in this case are silent on the basic and fundamental terms of the overall relationship, such as duration, termination and quantity of orders. *See* App. 3863a; 3865-66a; 3877-82a; 3885-86a; and 3904a (relied on by E&R to satisfy the Statute of Frauds).

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[5] *See also Eastern Dental Corp. v. Isaac Masel Co.*, 502 F. Supp. 1354, 1363-64 (E.D. Pa. 1980); *Zayre Corp. v. S.M. & R. Co.*, 88 F.2d 1145, 1155 (7th Cir. 1989).

C. THE AWARD OF $25 MILLION IN LOST PROFITS DAMAGES IS VIOLATIVE OF WELL-ESTABLISHED AND WELL-REASONED THIRD CIRCUIT LAW ON THE LEGAL STANDARD FOR PROOF OF DAMAGES.

In two recent opinions, *Tunis Bros. Co. v. Ford Motor Co.*, 952 F.2d 715 (3d Circuit), *cert. denied*, 112 S. Ct. 3034 (1992) and *Advent Systems, Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991), this Court has substantially redefined the law regarding awards of lost profits damages. In these decisions, the Court has clearly held that a party may not recover lost profits for a period of time greater than the underlying contract and that reliance on expert testimony in lieu of actual figures, especially when based on a plaintiff's own pre-contract profit projections, are disfavored. Both of those standards were utterly abandoned in this case.

1. Plaintiff's Expert Protected Profits For A Period Of Time Beyond The Contract Term In Violation of Controlling Third Circuit Precedent.

The $25 million lost profits award is erroneously based on ten year projections of sales for both the Crystal Signatures and Disney[6] lines. *See* App. 4527a. *See also* App. 2373a. E&R's contract with Disney provided for a duration of three years, with a highly contingent one year

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[6] At trial, E&R successfully asserted that Swarovski had agreed to extend the exclusive distribution contract with E&R to include a line of injection-molded miniature crystal Disney figurines.

option. App. 4127a-39a (Disney contract). Nonetheless, E&R's expert projected profits on the Disney line for a full ten years. *See* App. 4527a. In *Tunis Bros.*, this Court clearly held that a plaintiff may not recover lost profits for a period of years greater than the duration of the contract on which those profits are premised. 952 F.2d at 735. Accordingly, the Panel's affirmance of the award of lost profits for a period of ten years is contrary to *Tunis Bros.*, and should be reversed.

2. Plaintiff's Expert Disregarded Actual Sales Figures In Violation Of The Prior Admonitions Of This Court.

The Third Circuit has joined the growing list of circuits that has recognized and spoken out against the "old problem of expert witnesses." *Advent*, 925 F.2d at 682 (citations omitted). In *Advent*, the plaintiff's expert testified that total industry sales of a computer program product would have been $77 and $255 million in 1987 and 1988, notwithstanding actual sales of $12 million and $10 million, respectively, for those years. Although the expert in *Advent* stopped short of admitting that he ignored actual figures, in the absence of any other explanation, the Court presumed that the expert disregarded actual sales because of the defendants' conduct, an explanation which the *Advent* Court found to be "unconvincing at best." *Id.* The *Advent* Court then held that the expert's testimony was completely speculative in the light of actual sales, and issued the following admonition:

> We too have serious reservations about the validity of expert testimony on prior predictions of

> sales for a given period when actual performance data for that same time span are available.

Id.

This admonition was completely ignored in this case. Surpassing even the plaintiff's expert in *Advent*, Cook *admitted* that he disregarded actual sales results in formulating his projections. *See* App. 2324a. Accordingly, for the years 1987-1989, Cook adopted E&R's sales projections of $5 million, $10 million, and $13 million, respectively, App. 2375a, notwithstanding actual sales of $669,000.00, $281,000.00, and $550,000.00 in those years. App. 4527a. *See also* App. 2332-33a. Cook's rejection of actual figures and his refusal even to factor them into his calculation of damages is erroneous under this Court's decision in *Advent*.

3. Plaintiff's Expert Relied On And Extended Plaintiff's Pre-Contract Sales Projections In Contravention Of The Holding Of This Court.

Cook based his lost profits estimate on a three year sales projection that E&R drafted in 1986 for use in a sales presentation to Swarovski. *See* App. 2295a. As these projections were created prior to the sale or manufacture of any Crystal Signatures figurine, the projections were not based on actual sales. In addition, E&R relied on *no* industry information or supporting data in compiling these projections. As such, these projections pale even in comparison to those of the unsuccessful plaintiff in *Advent*, which managed to dress up its claim with sales

projections propounded by two separate and unaffiliated entities. 925 F.2d at 681.

Moreover, Cook took these three year projections and added to them a growth rate for a twelve year period of time, *see* App. 4527a, without any information regarding the crystal or collectibles market, sales of similar items, or the retail industry in general. In *Tunis Bros.*, this Court also faced an instance of rising, speculative sales projections. In that case, the plaintiff's expert projected a 40% increase in the rate of sales of tractors by plaintiffs' franchise in the initial year of the alleged contract, and projected annual increases of more than 10% each year for the following nine years. 952 F.2d at 734. Plaintiff's expert was, however, unable to substantiate these projections with any discernible data other than consultation with the plaintiff itself, which the Court held to be insufficient. *Id.* at 738.

In this case, Cook projected more than a 100% increase in sales in the first year, and annual increases thereafter of more than 20% for the next 4 years, yet Cook had no more basis for substantiating such a growth rate than the expert in *Tunis Bros. See* App. 4527a. For all of these reasons, E&R's damage testimony is irredeemably speculative and wholly insufficient under the law of this Circuit to support the award of lost profits.

D. THE PANEL'S ALLOCATION OF THE ENTIRE $16.5 MILLION PUNITIVE DAMAGE AWARD TO THE SINGLE TORT CLAIM UPHELD IS INCONSISTENT WITH THE LAW OF OTHER CIRCUITS.

The jury's lump-sum award of $16.5 million in punitive damages was based on its liability findings on E&R's

multiple claims of fraud.[7] *See also* App. 1436a (Opinion); 1473-75a. Yet, despite affirming the reversal of judgment on all but one of Plaintiff's claims of fraud, the Panel nonetheless affirmed the $16.5 million in punitive damages in its entirety. The Panel's allocation of the entire lump-sum punitive damage award to only one of the multiple claims on which that award was based is in conflict with the law of other circuits. *See Murphy Door Bed Co. v. Interior Sleep Sys., Inc.* 874 F.2d 95, 104 (2d Cir. 1989); *Litman v. Massachusetts Mut. Life Ins. Co.*, 739 F.2d 1549, 1562 (11th Cir. 1984), *cert. denied*, 484 U.S. 1006 (1988). *See also Midnight Sessions, Ltd. v. City of Philadelphia*, 945 F.2d 667, 687 n.19 (3d Cir. 1991), *cert. denied*, 112 S. Ct. 1668 (1992).[8]

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[7] At trial, E&R argued that it had no less than five separate and distinct claims of fraud against the Swarovski Defendants. *See* App. 3253a-56a; 3337a-41a. The district court grouped these five claims into two separate claims, characterizing the first as fraud against E&R Company (Plaintiff's predecessor in interest) and the second as fraud against E&R Ltd. (the entity created in the leveraged buyout). *Id.* at 1411a-15a (Opinion). The district court granted the Defendants judgment notwithstanding the verdict on the second claim of fraud. *See id.* at 1115a (Opinion).

[8] In *Litman*, the plaintiff obtained an award of punitive damages based on two claims of slander. On appeal, the Eleventh Circuit reversed the judgment on one of the two claims. Based on that reversal, the Eleventh Circuit remanded the punitive damage issue to the trial court for a new trial, stating that "[t]his result is unavoidable in light of the fact that the jury's $250,000 punitive damage award was made in response to a single question on the special verdict form." *Id.* Indeed, because punitive damages are awarded based upon a theory that outrageous conduct should be punished, the court held that the punitive damage award could not be sustained "based partly on the perceived outrageousness of that [nonslanderous]

E. DISPOSITION OF THIS APPEAL BY JUDGMENT ORDER IS A MISAPPLICATION OF THE THIRD CIRCUIT'S INTERNAL OPERATING PROCEDURES, UNFAIRLY PREJUDICES SWAROVSKI'S RIGHT TO SEEK FURTHER REVIEW OF THIS COURT'S DECISION AND DEFAULTS ON THE COURT'S CONSTITUTIONAL OBLIGATION TO REVIEW THE PUNITIVE DAMAGE AWARD.

This Court's Internal Operating Procedures provide that a Judgment Order is only appropriate where the Panel has unanimously determined to affirm the decision, and also determined that a written opinion will have no precedential or institutional value. *See* IOP 6.21; 6.22. The reasons for thus limiting the circumstances in which a Court of Appeals will dispense with a written decision were explained in *National Labor Relations Board v. Amalgamated Clothing Workers of America*, 430 F.2d 966, 972 (5th Cir. 1970):

> Opinions are to serve a number of purposes, at least two of which are highly significant. One is that an articulated discussion of the factors, legal, factual or both, which lead the Court to one rather than to another result, gives strength to the system and reduces, if not eliminates, the easy temptation or tendency to ill-considered or even arbitrary action by those having the awesome power of almost final review. . . .

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statement." *Id. See also Murphy Door*, 874 at 104 (vacating and remanding the punitive damage award because one of the two claims supporting the award was reversed); *Barnes Group, Inc. v. C&C Prods., Inc.*, 716 F.2d 1023, 1034 (4th Cir. 1983) (same).

> The Court recognizes that it must – the word is must – never apply the rule to avoid making a difficult or troublesome decision or to conceal divisive or disturbing issues. This means that while Rule 21[9] should make a real contribution towards the goal of avoiding delays which can often amount to a denial of justice, it must be sparingly used.[10]

The disposition of this case by Judgment Order violates both the letter and the spirit of *Amalgamated* and IOP 6.21 and 6.22. Certainly, in other commercial cases of lesser complexity than this one, the Court has provided the parties with full written opinions even when the judgment of the district court was affirmed.[11] It cannot be said in good conscience that a written opinion in this case would have no precedential value. This Court has taken great pains in *Tunis Bros.* and *Advent* to establish clear limitations on the type and quality of expert testimony

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[9] Fifth Circuit Rule 21, now Fifth Circuit IOP 47.6, is almost identical to Third Circuit IOP 6.21 and 6.22. *See Amalgamated*, 430 F.2d at 968 & n.2.

[10] This admonition necessarily suggests that it will be confined to cases involving well-established legal propositions and/or minor legal consequences to the litigants. Such a disposition would seem particularly inappropriate when applied to a case such as this one, which involves highly complex issues of commercial law, more than 10 assignments of error and a judgment for more than $42 million. Disposition of such an appeal without any explanation to the losing party weakens rather than strengthens belief in the integrity of the appellate process.

[11] *See, e.g., Altronics of Bethlehem, Inc. v. Repco. Inc.*, 957 F.2d 1102 (3d Cir. 1992); *Mellon Bank Corp. v. First Union Real Estate*, 951 F.2d 1399 (3d Cir. 1991); *Sowell v. Butcher & Singer, Inc.*, 926 F.2d 289 (3d Cir. 1991).

necessary to sustain awards of lost profits. This appeal vigorously challenged the sufficiency of E&R's expert testimony under those decisions. An articulation of the reasons why the principles of *Tunis Bros.* and *Advent* were or were not transgressed would have great precedential value to the bench and bar. Similarly, Swarovski presented the Court with a pure legal challenge to the apportionment of the punitive damage award, supported by well-reasoned decisions of other circuits. Whether the Panel distinguished those decisions or disagreed with them substantively, the reasons for that decision clearly have precedential value since there is no prior precedent in this Circuit addressing these authorities. *Cf. Amalgamated* at 972 (admonishing against the use of an affirmance without decision to "conceal divisive or disturbing issues"). Furthermore, the Judgment Order, by obscuring conflicts with decisions both in other circuits and within the Third Circuit itself, prejudices Swarovski's right to obtain in banc review by this Court and a review by the United States Supreme Court.

Moreover, disposition by Judgment Order constitutes an abdication of this Court's constitutional obligation to review the $16.5 million punitive damage award. As the United States Supreme Court has made clear, this Court is constitutionally obligated to make an independent review of the punitive damage award, both as to whether the evidence supports such an award in any amount and whether the amount awarded is greater than that reasonably necessary to punish and deter. *Pacific Mut. Life Ins. Co. v. Haslip*, 111 S. Ct. 1032, 1044, 1045 (1991). Indeed, in *Haslip*, such a review by the Alabama Supreme Court was

an important component of the constitutionality of that punitive damage scheme. *Id.* at 1045.

This Court's failure to undertake and articulate such a review of the punitive damage award is not only a failure of its obligations under *Haslip*, it also hides the legal deficiencies of the $16.5 million award of punitive damages in this case. These deficiencies include the absence of evidence of sufficiently outrageous conduct to justify such a massive award,[12] and the absence of any review of the sufficiency of the evidence supporting the amount of the actual damage award.[13] Indeed, in the face of a $200,000,000 stipulated net worth for Defendants, the trial court upheld a punitive damage award amounting to 8.25% of that figure, a number far in excess of the usual court approved percentage. *See Cash v. Beltmann N. Am. Co.*, 900 F.2d 109, 111 n.3 (7th Cir. 1990) ("[A] typical ratio for a punitive damage award to a defendant's net worth [is] around 1%"). In so affirming this award, the district

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[12] On appeal, Swarovski challenged the sufficiency of the evidence of "outrageous conduct" to support *any* punitive damage award. This Court has held that such conduct must be shown by clear and convincing evidence. *Acosta v. Honda Motor Co.*, 717 F.2d 828, 839 (3d Cir. 1983). Indeed, in *Dunn* this court devoted three pages of its decision to a challenge to the sufficiency of the evidence to sustain a $2 million punitive damage award. Here a $16.5 million award has received no discussion at all.

[13] Obviously, if the actual damage award is itself inflated, the failure to review the evidence supporting that award potentially punishes Swarovski twice by allowing a punitive damage award to stand which would be inherently unreasonable if the actual award were properly limited. E&R's out-of-pocket damages were only $850,000.

court relied on an unsupported "hunch" that the Swarovski's "extreme wealth was far in excess of the amount stipulated," *see* App. 1436a (Opinion at 43), and on the perceived "arrogance" of Swarovski's witnesses, *id.*, a rationale that punishes Swarovski for exercising its constitutional right of access to the courts and has nothing to do with the severity of the alleged wrongdoing itself.

CONCLUSION

For the foregoing substantial reasons, the Swarovski Defendants are entitled to reversal of the judgment under the law of this Circuit. Further, at a minimum under this Court's own procedures and the Supreme Court's ruling in *Haslip*, they are entitled to the articulation of why a $42 million judgment, including $16.5 million in punitive damages, can stand; a process which, we respectfully submit, will demonstrate that the judgment is in error and should be reversed.

Respectfully submitted,

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STATEMENT OF COUNSEL

I express a belief, based on a reasoned and studied professional judgment, that the Panel decision is contrary to the decisions of the United States Court of Appeals for the Third Circuit and other circuits, and of the Supreme Court of the United States, and that consideration by the full Court is necessary to secure and maintain uniformity of decisions in this and other Circuit Courts and the Supreme Court, to-wit, the Panel's decision is contrary to the decision of this Court in *Tunis Bros. Co., Inc. v. Ford Motor Company*, 952 F.2d 715 (3d Cir. 1991) and *Advent Systems, Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991), the decisions of other Circuits in *Murphy Door Bed Co. v. Interior Sleep Sys., Inc.*, 874 F.2d 95, 104 (2d Cir. 1989) and *Litman v. Massachusetts Mut. Life Ins. Co.*, 739 F.2d 1549, 1562 (11th Cir. 1984), *cert. denied*, 484 U.S. 1006 (1988), and the decision of the United States Supreme Court in *Pacific Mut. Life Ins. Co. v. Haslip*, 111 S. Ct. 1032 (1991).

/s/ William Michael Byrd, Jr.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served on all counsel of record via United States mail on this the 20th day of April, 1993.

/s/ William Michael Byrd, Jr.

UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 92-1723, 92-1744

EBELING & REUSS, LTD.
t/a EBELING & REUSS COMPANY,

Appellant in 92-1723

v.

SWAROVSKI INTERNATIONAL TRADING CORPORATION A.G.; D. SWAROVSKI & CO.; SWAROVSKI AMERICA LIMITED; SWAROVSKI AKTIENGESELLSCHAFT

Appellants in 92-1746

Appeal from the United States District Court
for the Eastern District of Pennsylvania
D.C. Civil Docket No. 88-04878
(District Judge: Honorable Norma L. Shapiro)

Argued: March 16, 1993

Before: STAPLETON, ROTH and LEWIS, *Circuit Judges*

JUDGMENT ORDER

After consideration of all contentions raised by appellants,

IT IS ADJUDGED AND ORDERED that the judgment of the district court be and is hereby affirmed.

Each appellant shall bear the costs of its own appeal.

BY THE COURT.

/s/ Illegible
Circuit Judge

Attest:

/s/ P. Douglas Sisk
P. Douglas Sisk, Clerk

DATED: APR 7 1993

FILED
JUL 22 1993
OFFICE OF THE CLERK

(2)

No. 92-2041

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1992

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., SWAROVSKI MANAGEMENT AND CONSULTING, A.G., D. SWAROVSKI & CO., SWAROVSKI AKTIENGESELLSCHAFT, and SWAROVSKI AMERICA LIMITED,

Petitioners,

v.

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED FOR REVIEW

1. When a court of appeals' summary affirmance, without opinion, of a district court's final judgment may reasonably be explained in at least two ways, one completely innocuous and the other alleged to create a circuit conflict, should the Court grant certiorari to resolve the hypothetical conflict?

2. Does the due process clause of the Fifth Amendment to the United States Constitution prohibit a court of appeals from summarily affirming, without opinion, a district court's final judgment whenever that judgment upholds a jury's award of punitive damages?

3. When petitioners have failed to preserve in the court of appeals a "substantive" due process challenge to the award of punitive damages imposed against them, should the Court disregard its usual practice of refusing to reach the merits of issues waived below in order to address petitioners' "substantive" due process challenge?

PARTIES TO THE PROCEEDINGS

Named as petitioners in this proceeding are Swarovski International Trading Corporation, A.G.; Swarovski Management & Consulting, A.G.; D. Swarovski & Co.; Swarovski Aktiengesellschaft; and Swarovski America Limited. The Court should note that petitioner Swarovski Management & Consulting, A.G. was not a party on appeal to the United States Court of Appeals for the Third Circuit. *See* App. 1 (caption of Third Circuit's judgment order listing all parties on appeal to the Third Circuit).

Respondent is Ebeling & Reuss, Ltd. t/a Ebeling & Reuss Company. Pursuant to Rule 29.1, Ebeling & Reuss, Ltd. t/a Ebeling & Reuss Company states that it has no parent or subsidiary companies.

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No. 92-2041

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1992

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., SWAROVSKI MANAGEMENT AND CONSULTING, A.G., D. SWAROVSKI & CO., SWAROVSKI AKTIENGESELLSCHAFT, and SWAROVSKI AMERICA LIMITED,

Petitioners,

v.

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

BRIEF IN OPPOSITION

Respondent Ebeling & Reuss, Ltd. t/a Ebeling & Reuss Company (E&R) respectfully requests that the Court deny the petition for a writ of certiorari to review the judgment order of the United States Court of Appeals for the Third Circuit, which summarily affirmed, without opinion, the district court's final judgment.

CONSTITUTIONAL PROVISIONS INVOLVED

In addition to the constitutional provisions that petitioners Swarovski International Trading Corporation, A.G.; Swarovski

Management & Consulting, A.G.; D. Swarovski & Co.; Swarovski Aktiengesellschaft; and Swarovski America Limited (collectively referred to herein as "the Swarovski defendants") claim are involved, the second question presented for review implicates the due process clause of the Fifth Amendment to the United States Constitution.

The Fifth Amendment provides:

> No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

U.S. Const. amend. V.

STATEMENT OF THE CASE

In a Judgment Order entered April 7, 1993, *see* App. 1, a three-judge panel of the United States Court of Appeals for the Third Circuit summarily affirmed, without opinion, the final judgment of the United States District Court for the Eastern District of Pennsylvania awarding $42,350,000.00 in favor of E&R upon a jury's verdict against the Swarovski defendants. The final judgment was composed of $25,850,000.00 in compensatory damages and $16,500,000.00 in punitive damages.

In their petition for a writ of certiorari, the Swarovski defendants seek review only of the punitive damages component of the district court's final judgment. Thus, the Swarovski defendants do not challenge the Third Circuit's judgment order insofar as the Third Circuit affirmed the district court's final judgment upholding the jury's award of $25,850,000.00 in compensatory damages to E&R.

The facts, viewed in the light most favorable to E&R as the verdict winner, are as follows. Founded in 1886, E&R was at all times a Philadelphia-area distributor of fine gifts, glassware

and collectibles. Before staking its future on the Swarovski defendants' false promise of exclusive distribution of a line of crystal figurines, E&R was widely known as one of the oldest and most reputable distributors of fine gifts, glasswares and collectibles. *See* Rec. 1771.[1] As a result of the events giving rise to the judgment against the Swarovski defendants, E&R was forced into bankruptcy and its business ended. *See* Rec. 2146-47.

In mid-1986, the Swarovski companies sought a distributor for a new product line. E&R was introduced to the Swarovski companies by Peter Yenawine of Pynn Corporation. *See* Rec. 1809-11, 2162, 2663. Before the introduction, Yenawine had served as the director of design for the Swarovski companies and was the long-time friend of Helmut Swarovski of D. Swarovski & Co. *See* Rec. 2634-35, 2663, 2666. In return for an undisclosed commission paid by the European Swarovskis, *see* Rec. 4036, 4532-35, Yenawine facilitated a contract between E&R and the European Swarovski defendants that gave E&R the exclusive right to market this new product line, which consisted of Swarovski-manufactured miniature pressed crystal figurines manufactured by D. Swarovski & Co., Wattens, Austria.[2] *See* Rec. 1775-76, 1812-13, 1821-34, 1827, 2665, 3858, 3877, 3885, 3904; Supp. Rec. 14-16, 19-20. Under the agreement, E&R was entitled to market the products using E&R's registered "Crystal Signatures" trademark and the "Swarovski" name. *See* Rec. 1776, 1985-86, 3886, 3904, 3916-17; Supp. Rec. 104-30. On July 22, 1986, E&R placed its first order for the new products. *See* Rec. 1775, 3887-3903.

Before the contract was made, unbeknownst to E&R, D. Swarovski & Co.'s representative Helmut Swarovski intended to use E&R as a "guinea pig" to test the market for the new

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1. The appendix filed in the United States Court of Appeals for the Third Circuit is cited herein as "Rec." The supplemental appendix filed in the Third Circuit is cited herein as "Supp. Rec."

2. The term "pressed" was meant to distinguish the new line, in which E&R had exclusive rights, from the completely faceted, or "cut," Swarovski manufactured items, including Swarovski's well-known Silver Crystal collection, distributed by Swarovski America, to which E&R had no distribution rights. *See* Rec. 1813-15; Supp. Rec. 14.

product. If the product proved successful, the Swarovski entities intended to take back marketing rights to the miniature pressed figurines, leaving E&R without a product to sell. *See* Rec. 2142-45, 4485. Even though the Swarovski parties knew that E&R was counting on the success of this new venture to replace the profits E&R earned on another highly profitable line of figurines it had recently lost, the Swarovski parties induced E&R to stake its financial future on a promise the defendants never intended to keep. *See* Rec. 1772-73, 2017-18, 2141, 2145; Supp. Rec. 16-17.

Relying upon its exclusive right to market these new Swarovski figurines, E&R spent $850,000.00 developing a market for the line of products and, using marketing materials approved by the Swarovski entities, achieved an initial response that far surpassed anything that E&R had experienced in its many years of marketing and selling gift items. *See* Rec. 1779, 1839-43, 1847-48, 1859-71, 1874-83, 2023-24, 3908-15, 4172-91; Supp. Rec. 104-30.

Almost from the start, the European Swarovski defendants undercut E&R's ability to capitalize on the success of the new line by failing to confirm E&R's purchase orders, by failing to fulfill their manufacturing commitments and by failing to deliver sufficient product in time for E&R to fill its customers' orders for the peak selling opportunity at Christmas of 1986 and the spring of 1987. In fact, as a result of Swarovski's delays, E&R was compelled to postpone the full "roll out" of the line from Christmas of 1986 until July 1987. *See* Rec. 1803-04, 1844-47, 1899-1930, 3918-19, 3923, 3978-81, 3984-86, 3991, 4032.

While the European Swarovski entities were delaying, in the second-half of 1986, the president of Swarovski America Ltd., Lawrence Metcalfe, began his efforts to prevail upon the advisory board that oversees the Swarovski companies, known as the BEIRAT, to execute the plan to revoke E&R's right to use the Swarovski name. *See* Rec. 1959-64, 1973, 3883-84, 3916-17, 4021-28. In early 1987, Metcalfe sent a letter, secretly authorized by the BEIRAT, to E&R's retail customers informing them, falsely, that E&R had no right to use the Swarovski name and stating, falsely, that Swarovski had no connection with E&R's Crystal Signatures line. *See* Rec. 1760-67, 1930-31, 4038,

4043, 4474. Metcalfe and Gernot Langes-Swarovski, of Swarovski's marketing arm, obtained this authorization from the BEIRAT by falsely reporting that E&R had exceeded its authorization to use the "Swarovski" name, an assertion that Metcalfe and Langes-Swarovski knew to be untrue. *See* Rec. 1965-68, 4031, 4035-36. As a result of the Swarovski defendants' failure to make timely shipments of initial orders coupled with the Metcalfe letter, E&R suffered a dramatic decline in orders for the product line in the late spring of 1987. *See* Rec. 1931-34, 1948-53, 1957-59, 1995- 96. Indeed, Helmut Swarovski admitted that the letter caused harm to E&R's sales of Crystal Signatures. *See* Supp. Rec. 23-24.

As a result of Swarovski America's efforts, in early 1987, the BEIRAT, again unbeknownst to E&R, made formal its resolution to revoke E&R's right to use the "Swarovski" name. Accordingly, a Swarovski official, Dr. Martin Halusa, was assigned to study alternate "strategies" for accomplishing the revocation. *See* Rec. 1973, 1982-84, 2847-48, 2878-82; Supp. Rec. 132, 134, 136, 138, 141, 143. Halusa prepared a written "negotiating strategy" in which he emphasized the potential future profits of the E&R line, warned of the potential adverse consequences of trying to revoke E&R's right to use the "Swarovski" name without paying compensation to E&R and suggested that the Swarovski parties instead negotiate with E&R to convince it to give back voluntarily its exclusive rights. *See* Rec. 1972, 2852-55, 2877; Supp. Rec. 131-45.

Thereafter, Halusa attempted to negotiate with E&R to persuade it to relinquish *without compensation* its right to use the "Swarovski" name. *See* Rec. 1970-72, 2875-76. While Halusa suggested to E&R that this course was the best path to lessen the damage inflicted on it by the Metcalfe letter, Halusa never informed E&R that the Metcalfe letter had been approved by the BEIRAT or that the BEIRAT had secretly resolved to revoke E&R's right to use the name. *See* Rec. 1972. The Swarovski entities' plan to take over the E&R line thus remained secret.

When his efforts at persuasion failed, Halusa embarked on a second effort to wrest E&R's rights from it. He drafted a proposed written agreement between E&R and Swarovski to replace the existing agreement. Under the proposed written

agreement, E&R would be given the appearance of certainty in its business relations with the Swarovski entities but, instead of having unconditional exclusive rights to the entire product line, it, in fact, would receive exclusive rights *only* to items designed by E&R *and* approved by Swarovski. *See* Rec. 1987-94, 2886-91, 2901-03, 2925-26, 4064-65, 4084-97, 4099, 4101, 4105-21.

The Swarovski parties' attempts to renegotiate the agreement with E&R paused when it was reported in the fall of 1987 that E&R's parent, Alco Standard Corporation, intended to divest itself of a number of its divisions, including E&R. *See* Rec. 2123-26, 4126. On March 31, 1988, E&R was acquired by its own management and several outside investors. *See* Rec. 1771-72. No other changes in the business occurred. As a part of that transaction, E&R Ltd. was assigned all of the rights and obligations of E&R Co. under the exclusive distribution agreement with Swarovski. *See* Rec. 2129.

Independent of the change in E&R's ownership, the Swarovski defendants continued to implement their secret plan to take back the distribution rights to this product line. The Swarovski parties' breaches of their agreement with E&R continued. In August of 1987, the Swarovski entities secretly began implementing plans to market their miniature pressed crystal figurines to the Zales discount jewelry chain in breach of the exclusive distribution agreement with E&R. *See* Rec. 2113-17, 3996-97, 4126, 4192-93; Supp. Rec. 33-34, 37-38. At that time, the Swarovski entities owned a fifty-percent interest in Zales. On December 31, 1987, the Swarovski entities acquired complete ownership of Zales. *See* Rec. 2112.

Without disclosing the secret decision to revoke E&R's use of the "Swarovski" name and the ongoing efforts to market the line through Zales in competition with E&R, the Swarovski entities induced E&R to place additional orders in 1987. *See* Rec. 1767-68, 2120. After the European Swarovski entities failed to confirm these orders or comply with their delivery terms, E&R instructed the European entities to put the orders on "hold" until after the management buy-out, since it was necessary to establish a "cut-off" date for calculating the value of E&R's inventory. *See* Rec. 1768-70.

As was discovered in a secret Swarovski memorandum entitled "Projekt Konzept" prepared in the fall of 1987, in marketing the miniature pressed crystal figurines to Zales, the Swarovski entities employed confidential marketing research and other know-how that E&R had disclosed pursuant to the terms of the agreement requiring the parties to cooperate in developing and marketing the product line exclusively through E&R. *See* Rec. 2117-18, 2136-39, 4153-91, 4371-73. On May 31, 1988, Swarovski and Zales reached agreement on a plan, not involving E&R, to bring Swarovski miniature pressed crystal figurines to market in Zales stores by October of 1988. *See* Rec. 2121, 4382-95. These miniature pressed crystal figurines, indistinguishable from the products to which E&R had exclusive distribution rights, were sold through Zales as "Crystal Collectibles by Swarovski." *See* Supp. Rec. 164.

On June 1, 1988, one day after Swarovski and Zales made their still-secret plans to roll out "Crystal Collectibles" in the fall, the Swarovski entities had their United States attorney, Norman Orodenker, write to E&R informing E&R that it could no longer use the "Swarovski" name or sell the product line. *See* Rec. 4396. The letter precipitated E&R's filing of this lawsuit on June 20, 1988.

Soon after E&R first reached its agreement with the Swarovski entities in mid-1986, E&R undertook to negotiate an agreement with the Walt Disney Company so that Disney character figurines could be a part of E&R's Crystal Signatures line. *See* Rec. 1837-39, 3905-07, 4127-39. To that end, in the fall of 1986 Helmut Swarovski and Michael Russo of E&R met with Disney's director of giftware licensing. *See* Rec. 2057-58. At the meeting, after being advised that Disney had no interest in licensing a line of faceted figurines, Helmut Swarovski confirmed that any pressed Disney figurines would be a part of the new product line in which E&R had exclusive rights. *See* Rec. 1926. Thereafter, Disney signed a license agreement with E&R and a manufacturing agreement with the Swarovski entities. *See* Rec. 1985, 2055, 4105-21, 4127-39.

In late 1987, E&R began working with the Swarovski defendants to develop a collection of items to coincide with promotion of Mickey Mouse's sixtieth birthday, which was

celebrated in the fall of 1988. *See* Rec. 2058-64. In a series of meetings with Swarovski officials in Austria in May of 1988, after E&R's change in ownership, E&R re-approved initial designs for its Mickey's 60th Birthday Crystal Signatures Disney collection. *See* Rec. 2064-65. During those meetings, the Swarovski entities promised to provide actual samples in time for the "Disney Expo" trade show scheduled for September of 1988 in Walt Disney World in Orlando, Florida.[3] *See* Rec. 2044, 2064-67, 2073-74.

After receiving the June 1, 1988 letter from attorney Orodenker, E&R filed this suit and sought injunctive relief to require the Swarovski entities to complete the Disney samples in time for the "Disney Expo." *See* Rec. 2053. Despite entry of the district court's injunction ordering the Swarovski entities to produce the Disney samples by September 1, 1988, the Swarovski entities failed to comply with the injunction and refused to perform their obligations under their agreement with E&R. *See* Rec. 2074-86, 4397-4419, 4488-4526. Instead, the Swarovski parties chose to use their production capacity to manufacture "Crystal Collectibles" for sale in the Zales chain in further breach of the agreement. *See* Rec. 2087, 2099, 2102-09, 4472-73, 4481. According to Swarovski America documents, sales of "Crystal Collectibles" were "excellent." *See* Rec. 2987-89, 2991-92, 2997-98.

The jury, hearing all the evidence and observing firsthand, to quote the district judge, "the arrogance of defendants' witnesses," *see* App. 46, determined that the Swarovski parties defrauded E&R, breached their contract with E&R, tortiously interfered with E&R's contracts with its customers and with Disney, competed unfairly against E&R, violated E&R's registered "Crystal Signatures" trademark and misappropriated E&R's trade secrets. *See* App. 78-85, 90-91. The jury also found that Swarovski America had tortiously interfered with E&R's agreement with the European Swarovski defendants. *See* App. 82. Finally, the jury determined that all defendants except

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3. At these meetings, the Swarovski entities said nothing about terminating E&R's exclusive distributorship. The Swarovski parties did repeat their demands that E&R cease using the "Swarovski" name, although the Swarovski parties did not disclose their competing "Crystal Collectibles" line. *See* Rec. 2044-46, 2073-74.

Swarovski Aktiengesellschaft had conspired together to perpetrate the fraud and tortious interferences. *See* App. 86.

The parties stipulated at trial that the net worth of the Swarovski entities was *in excess of* $200,000,000.00, *see* App. 46. The jury returned a verdict totalling $55,641,364.00, with $34,141,364.00 representing compensatory damages and $21,500,000.00 representing punitive damages. *See* App. 88-89, 91-92. In ruling upon the Swarovski defendants' motions for judgment notwithstanding the verdict and to alter or amend the judgment, the district court reduced the amount of the judgment to $42,350,000.00, with $25,850,000.00 representing compensatory damages and $16,500,000.00 representing punitive damages. App. 46, 93-94. Thereafter, E&R and the Swarovski defendants appealed to the United States Court of Appeals for the Third Circuit.

In their opening brief on appeal to the Third Circuit, the Swarovski defendants raised eight separate issues. Only the final two issues were directed toward the jury's award of punitive damages in E&R's favor. In the seventh issue the Swarovski defendants raised on appeal, they asked "[w]hether the trial court erred in entering judgment for punitive damages awarded in part for causes of action as to which judgment n.o.v. was granted." *See* Opening Brief of Appellants in Third Circuit at 2. The substance of the Swarovski defendants' argument on this point was that the district court allegedly instructed the jury that it could award punitive damages based upon four claims of tortious interference and two claims of fraud and that, after deliberating, the jury returned a lump-sum award of punitive damages totalling $16,500,000.00.[4] *See* Resp. App. 6-7. The Swarovski defendants then noted that the district court had set aside, on post-judgment motions, five of the six claims that could have given rise to the jury's award of $16,500,000.00 in punitive

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4. As noted above, the jury had awarded E&R a total of $21,500,000.00 in punitive damages. The district court set aside $5,000,000.00 of that amount because that $5,000,000.00 was awarded solely upon other claims, misappropriation of trade secrets and unfair competition, for which the district court granted judgment notwithstanding the verdict in favor of the Swarovski defendants.

damages, but the district court nevertheless upheld the jury's entire $16,500,000.00 award of punitive damages. *See id.*

In response, E&R argued in its brief, citing to the instructions actually given to the jury, that the district court had instructed the jury that it could award punitive damages only if it found the Swarovski defendants liable for fraud. *See* Resp. App. 10 & n.23 (citing Rec. 3580). Thus, E&R noted, the district court correctly recognized that setting aside the jury's verdict on E&R's tortious interference claims in no way affected the jury's award of $16,500,000.00 in punitive damages. *See id.* Next, E&R explained that the claim of fraud that survived the Swarovski defendants' post-judgment motions encompassed all of the defendants' outrageous conduct that the jury heard about and saw at trial. *See* Resp. App. 11. E&R then argued that because punitive damages are imposed under Pennsylvania law based upon outrageous conduct rather than based upon the number of claims that permit an award of punitive damages, the district court did not err in upholding the jury's award of $16,500,000.00 in punitive damages in its entirety. *See id.*

In the eighth issue the Swarovski defendants raised on appeal in the Third Circuit, they asked "[w]hether the trial court erred in holding that the award of punitive damages to Plaintiff was supported by the evidence." *See* Opening Brief of Appellants in Third Circuit at 2. In the Argument section of their opening brief, the Swarovski defendants argued exclusively with respect to this issue that E&R failed to introduce sufficient evidence of outrageous conduct, the type of conduct required under Pennsylvania law in order for punitive damages to be awarded, and thus the jury's award of $16,500,000.00 in punitive damages in E&R's favor must be set aside in its entirety. *See* Resp. App. 8-9.

In response, E&R argued that the Swarovski defendants had waived their sufficiency argument by failing to raise the argument either in their motion for a directed verdict at the close of E&R's case-in-chief or when the Swarovski defendants renewed their directed verdict motion at the close of all the evidence. *See* Resp. App. 13. E&R also argued, citing to the Statement of Facts section of its brief, that it introduced at trial

more than sufficient evidence of outrageous conduct to justify an award of punitive damages under Pennsylvania law. *See id.*

It was not until the Swarovski defendants filed their reply brief in the Third Circuit that they first raised the issue of "substantive" due process on appeal. *See* Resp. App. 14-15. In fact, the Swarovski defendants' reply brief represented the first time on appeal to the Third Circuit that they cited to this Court's ruling in *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1, 111 S. Ct. 1032 (1991), a decision that this Court issued long before the Swarovski defendants even filed their appeal to the Third Circuit.[5] *See* Resp. App. 14. The Swarovski defendants' reply brief also represented the first time that they asked the Third Circuit to review not only whether punitive damages could be imposed at all, a question admittedly raised in the Swarovski defendants' opening brief on appeal, but also whether the jury's punitive damages award was greater than that reasonably necessary to punish and deter, a question never before raised on appeal. *See* Resp. App. 14-15.

Because the Swarovski defendants waited until their reply brief to launch a "substantive" due process attack on the jury's award of punitive damages, thus depriving E&R of any opportunity to respond, E&R filed a motion to draw the Third Circuit's attention to the fact that the Swarovski defendants' "substantive" due process argument should be deemed waived under governing Third Circuit law. *See* Resp. App. 1-15. E&R requested either that the offending paragraph of the Swarovski defendants' reply brief, which injected the "substantive" due process issue for the first time on appeal, be stricken or that E&R be granted leave to respond to the argument raised for the first time in the Swarovski defendants' reply brief. *See* Resp. App. 4-5.

In response to E&R's motion, the Swarovski defendants disclaimed that they were attempting to inject a "substantive" due process argument into the appeal and instead claimed to be citing *Haslip* only for the proposition that it is important for the Third Circuit to consider whether E&R introduced sufficient

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5. In fact, the district court itself cited to *Haslip* in its ruling on the parties' post-judgment motions. *See* App. 41-46.

evidence of outrageous conduct so as to support *any* award of punitive damages. *See* Resp. App. 17-18. The Swarovski defendants also correctly noted in their response to E&R's motion that the Third Circuit need not be presented with a motion to strike in order to hold that an argument raised for the first time on appeal in a party's reply brief is waived. *See* Resp. App. 18.[6]

On March 16, 1993, a three-judge panel of the United States Court of Appeals for the Third Circuit heard oral argument in the appeal and cross appeal. The Third Circuit allocated twenty-five minutes of argument time per side, and during the argument the court granted additional time to counsel for both sides.

At the close of oral argument, the Third Circuit panel directed counsel for the parties to have a transcript of the argument prepared for the court's use. *See* Resp. App. 44. The transcript of argument was filed with the Third Circuit on March 19, 1993.

The transcript of the oral argument provides further evidence that the Third Circuit concluded that the Swarovski defendants had waived their "substantive" due process challenge to the jury's award of punitive damages in E&R's favor. When counsel for the Swarovski defendants began the due process portion of his argument, the court of appeals asked "Why isn't the issue of whether the—of the District Court, whether the District Court properly declined to reduce the punitive damage award waived? Why isn't it waived?" *See* Resp. App. 29. After counsel for the Swarovski defendants spoke without further interruption for two additional pages of the transcript, the court of appeals interrupted counsel for the Swarovski defendants' due process argument to move on to another issue, one presented in E&R's cross appeal. *See* Resp. App. 30.

Twenty-two days after the appeal and cross appeal had been argued, the Third Circuit on April 7, 1993 entered a judgment

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6. Two days after the Third Circuit entered its judgment order affirming, in its entirety, the district court's final judgment, the Third Circuit entered an order denying E&R's motion to strike. At that time, E&R's motion to strike was moot.

order affirming, in its entirety, the district court's final judgment. *See* App. 1. The judgment order stated, in relevant part:

> After consideration of all contentions raised by appellants,
>
> IT IS ADJUDGED AND ORDERED that the judgment of the district court be and is hereby affirmed.

Id.

On April 21, 1993, the Swarovski defendants filed a petition for rehearing containing a suggestion for rehearing in banc. Two days later, on April 23, 1993, the Third Circuit entered an order requiring E&R to file an answer to the petition for rehearing, together with a sufficient number of copies of the answer to permit its distribution to the entire in banc court. E&R filed its answer to the rehearing petition on May 5, 1993. A copy of E&R's answer to the petition for rehearing is set forth in the appendix to this brief in opposition. *See* Resp. App. 45-66.

In an order dated May 17, 1993, the Third Circuit denied the Swarovski defendants' petition for rehearing and denied their suggestion for rehearing in banc without recorded dissent. *See* App. 3-4. On May 19, 1993, the Swarovski defendants filed in the Third Circuit a motion seeking a stay of that court's mandate. On May 20, 1993, E&R filed a response opposing the motion for a stay. On June 23, 1993, the Third Circuit issued an order denying the Swarovski defendants' motion for a stay of the mandate. The Third Circuit's mandate issued on that same day.

Also on June 23, 1993, the Swarovski defendants filed their petition for a writ of certiorari in this Court. On June 24, 1993, the Swarovski defendants filed an application, docketed in this Court at A-967, directed to JUSTICE SOUTER, in his capacity as Circuit Justice for the United States Court of Appeals for the Third Circuit, seeking the recall and stay of the Third Circuit's mandate.

In their application, the Swarovski defendants recognized that they had to establish three things in order to obtain relief: (1) that a reasonable probability existed that this Court would grant their petition for a writ of certiorari, a copy of which was attached to the application; (2) that there was a fair prospect that a majority of this Court would conclude that the Third Circuit's

decision was in error; and (3) that irreparable harm would result from the denial of the stay.

On June 28, 1993, JUSTICE SOUTER denied the Swarovski defendants' application to recall and stay the Third Circuit's mandate. Shortly thereafter, the Swarovski defendants paid the judgment in favor of E&R, which, including accrued interest, totalled in excess of $53,000,000.00.[7]

SUMMARY OF THE ARGUMENT

This Court should deny the Swarovski defendants' petition for a writ of certiorari.

With respect to the first question presented, the Third Circuit's judgment order, which summarily affirmed the district court's final judgment upholding the jury's $16,500,000.00 punitive damages award, rests on a proper and unchallenged application of Pennsylvania law. Understood in that manner, the Third Circuit's judgment order does not give rise to the circuit conflict the Swarovski defendants posit in their first question presented.

As to the second question presented, the due process clause of the Fifth Amendment does not require a court of appeals to render a written opinion whenever it affirms a district court's judgment upholding a jury's award of punitive damages. This question clearly is not deserving of this Court's attention.

With respect to the third question presented, the Swarovski defendants waived any "substantive" due process challenge to the jury's award of punitive damages by failing to raise the issue in their opening brief in the Third Circuit. As a result, under this Court's usual practice, the Swarovski defendants'

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7. In their application made to JUSTICE SOUTER, the Swarovski defendants stated that "[i]f the mandate of the Third Circuit is not recalled, it will effectively moot Swarovski's pending Petition for a Writ of Certiorari by depriving it of its point and efficacy." *See* Swarovski Defendants' Application to Recall and Stay Mandate of United States Court of Appeals for the Third Circuit Pending Certiorari (A-967) at page 9. E&R agrees that, in its current posture, the Swarovski defendants' petition for a writ of certiorari is, by the Swarovski defendants' own admission, both "moot" and without "point and efficacy." *Id.*

"substantive" due process challenge should not be reviewed on writ of certiorari.

ARGUMENT

I. The Third Circuit's Judgment Order Does Not Give Rise To A Circuit Conflict

The Swarovski defendants contend, in their first question presented for review, that the Third Circuit's summary affirmance, without opinion, of the district court's final judgment upholding the jury's award of $16,500,000.00 in punitive damages creates a circuit conflict. In truth, the Swarovski defendants' assertion of a circuit conflict is purely theoretical and thus is not deserving of this Court's attention.

This Court explained in *Browning-Ferris Indus. v. Kelco Disposal, Inc.*, 492 U.S. 257, 278 (1989), that:

> In a diversity action, or in any other lawsuit where state law provides the basis of decision, the propriety of an award of punitive damages for the conduct in question, and the factors the jury may consider in determining their amount, are questions of state law.

The Third Circuit's decision represents a correct application of Pennsylvania law to the particular circumstances of this case. The Swarovski defendants do not contend otherwise.

The Supreme Court of Pennsylvania explained in *Kirkbride v. Lisbon Contractors, Inc.*, 555 A.2d 800, 803 (Pa. 1989), that under Pennsylvania law the purpose of punitive damages is to "punish a tortfeasor for outrageous conduct and to deter him or others from similar conduct . . . ." Thus, under Pennsylvania law it is not the number of claims that determines the amount of punitive damages that may be awarded; instead, it is the underlying conduct giving rise to a claim for which punitive damages may be awarded.

The district court upheld the jury's finding that the Swarovski entities defrauded E&R Co. The evidence introduced in support of that finding encompassed all of the Swarovski defendants' outrageous conduct that the jury heard about and saw at trial. The Swarovski entities engaged in a single scheme of

fraudulent conduct that began before the time they entered into their contract with E&R Co. and ended at the time that E&R Ltd. discovered, after initiating this lawsuit, that the Swarovski entities were themselves actually selling the pressed crystal figurine line, in violation of E&R's promised exclusive rights in that line. It is this conduct for which the Swarovski defendants remain liable for fraud, and it is this very same conduct (and no other) upon which the jury based its award of punitive damages.[8]

In this respect, the Third Circuit's affirmance is in accord with this Court's decision in *Zant v. Stephens*, 462 U.S. 862 (1983). In that case, the Court examined whether the United States Court of Appeals for the (Former) Fifth Circuit correctly vacated the death sentence that the State of Georgia had imposed upon respondent. The court of appeals had vacated the sentence because one of several aggravating circumstances that the jury expressly found was later declared, by the Supreme Court of Georgia, to be unconstitutionally vague. This Court reversed the Fifth Circuit's judgment and reinstated the death sentence, holding that the case was not governed by the "rule derived from the *Stromberg* [*v. California*, 283 U.S. 359 (1931)] case . . . that a general verdict must be set aside if the jury was instructed that it could rely on any of two or more independent grounds, and one of those grounds is insufficient." 462 U.S. at 881. The Court continued: "This rule does not require that respondent's death sentence be vacated, because the jury did not merely return a general verdict stating that it had found at least one aggravating circumstance. The jury expressly found aggravating circumstances that were valid and legally sufficient to support the death penalty." *Id.*

Similarly, here the jury expressly found in favor of E&R Co. on its fraud claim against the Swarovski defendants. Given that the evidence underlying that fraud claim encompassed all of defendants' outrageous conduct that the jury heard about and

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8. The Third Circuit had before it in the appendix on appeal the entire trial transcript, *see* Rec. 1521-3831. Thus, the Third Circuit was in a position to determine, as it did, that the fraud claim the district court upheld encompassed all of the outrageous conduct that the jury heard about and saw at trial.

saw at trial, and since the jury's $16,500,000.00 punitive damages award was necessarily based on that very conduct, the Third Circuit did not err in upholding the jury's entire award of punitive damages.

Because the jury's entire award of punitive damages had to be sustained as a matter of Pennsylvania substantive law, the Third Circuit never reached the point of deciding whether a new trial was mandated, as a matter of federal law, on the question of punitive damages. Thus, the circuit conflict that the Swarovski defendants' posit is, in all likelihood, fictitious.[9]

The Third Circuit's decision represents an unchallenged, proper application of Pennsylvania law, and the Swarovski defendants' assertion of a circuit conflict is thus hypothetical at best. As a result, this Court should reject the Swarovski defendants' first reason for granting certiorari.

II. The Due Process Clause Of The Fifth Amendment Does Not Require A Court Of Appeals To Issue A Written Decision Whenever A District Court's Final Judgment Upholding A Jury's Award Of Punitive Damages Is To Be Affirmed

In the second question presented for review, the Swarovski defendants ask this Court to hold that the due process clause of the Fifth Amendment requires a court of appeals to issue a written decision explaining the reasons why a district court's final judgment upholding a jury's award of punitive damages is to be affirmed.[10]

The Swarovski defendants' argument mistakes the absence of a written decision for a lack of appellate review. The Third

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9. The Swarovski defendants raised the circuit conflict question in their rehearing petition filed in the Third Circuit. *See* App. 110-11; *cf.* Resp. App. 59-61. The Swarovski defendants' failure to get even a single recorded vote in favor of rehearing, *see* App. 3-4, demonstrates that a circuit conflict exists, if at all, only in the minds of the Swarovski defendants.

10. The Swarovski defendants couch their argument in terms of the Fourteenth Amendment. However, because their argument concerns the procedures that a federal court must follow, their argument is better viewed as arising under the Fifth Amendment. *See Johnson v. Hugo's Skateway*, 974 F.2d 1408, 1411 n.1 (4th Cir. 1992) (en banc).

Circuit explained long ago that its use of a judgment order does not indicate that an appeal is receiving less than close appellate scrutiny. *See United States v. Baynes*, 548 F.2d 481, 482-84 (3d Cir. 1977) (per curiam) (rejecting due process challenge to the affirmance of a criminal conviction by judgment order).

The three-judge panel of the Third Circuit assigned to hear the Swarovski defendants' appeal in this case read and considered briefs totaling nearly 175 pages and heard nearly an hour's worth of oral argument. The transcript of oral argument, *see* Resp. App. 20-44, and the text of the judgment order that the panel issued, *see* App. 1-2, make clear that the panel considered all of the contentions raised on appeal. The Third Circuit panel determined, based either upon waiver or lack of substantive merit, or both, that the arguments the Swarovski defendants raised on appeal were unavailing.

Nor did the review the Swarovski defendants received from the Third Circuit end with the three-judge panel assigned to their appeal. After receiving the Swarovski defendants' petition for rehearing and suggestion for rehearing in banc, *see* App. 96-119, the Third Circuit ordered E&R to file an answer in sufficient number for distribution to the entire in banc court. After reviewing the Swarovski defendants' rehearing petition and E&R's answer thereto, *see* Resp. App. 45-66, none of the twelve active judges on the Third Circuit noted his or her dissent from the denial of rehearing in banc. *See* App. 3-4. While the Swarovski defendants are no doubt disappointed with the outcome of their appeal, it cannot be gainsaid that their appeal received sufficient appellate review.

The rule of law that the Swarovski defendants seek to have this Court announce would be contrary to this Court's decisions and would have no basis in reason. In the Court's recent decision in *TXO Prod. Corp. v. Alliance Resources Corp.*, 61 U.S.L.W. 4766 (U.S. June 25, 1993) (No. 92-479), the plurality opinion of JUSTICE STEVENS rejected TXO's due process attack upon the trial judge's failure to announce his reasons for his denial of TXO's postverdict motions. JUSTICE STEVENS wrote, in a portion of the plurality opinion joined by THE CHIEF JUSTICE, JUSTICE BLACKMUN and JUSTICE KENNEDY:

> The only basis for criticizing the trial judge's review of the punitive damages award is that he did not articulate his reasons for upholding it. He did, however, give counsel an adequate hearing on TXO's postverdict motions, and during one colloquy indicated his agreement with the jury's appraisal of the egregious character of the conduct of TXO's executives. See n. 12, *supra.* While it is always helpful for trial judges to explain the basis for their rulings as thoroughly as is consistent with the efficient despatch of their duties, *we certainly are not prepared to characterize the trial judge's failure to articulate the basis for his denial of the motions for judgment notwithstanding the verdict and for remittitur as a constitutional violation.*

Id. at 4772 (emphasis added). This Court should similarly reject the Swarovski defendants' second reason for granting certiorari.

In fact, to accept the Swarovski defendants' arguments would be to contradict this Court's statement in *Taylor v. McKeithen,* 407 U.S. 191, 194 n.4 (1972) (per curiam), that:

> We, of course, agree that the courts of appeals should have wide latitude in their decisions of whether or how to write opinions. That is especially true with respect to summary affirmances.

The consequences of the rule that the Swarovski defendants would have the Court adopt would be far-ranging. If the courts of appeals were required under the Fifth Amendment to issue written decisions on every appeal affirming a judgment that awards punitive damages, then it would seem to follow that the Fifth Amendment likewise would require that the courts of appeals issue a written opinion explaining every affirmance of a judgment of conviction and sentence where the court upholds a jail sentence. *Cf. Blanton v. North Las Vegas,* 489 U.S. 538, 542 (1989) (loss of liberty is a more severe form of punishment than any monetary sanction).[11]

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11. This description of the Court's ruling in *Blanton* is taken, verbatim, from the opinion of the Court in *Alexander v. United States,* 61 U.S.L.W. 4796, 4799 (U.S. June 28, 1993) (No. 91-1526).

For these reasons, this Court should reject the Swarovski defendants' second ground for certiorari.

III. The Swarovski Defendants' "Substantive" Due Process Challenge To The Jury's Punitive Damages Award Is Both Waived And Without Merit

Before the Third Circuit, the Swarovski defendants admitted that they failed to preserve a due process challenge to the jury's award of punitive damages. In their forty-nine page opening brief on appeal, the Swarovski defendants did not advance a due process challenge to the jury's award of punitive damages or even cite to this Court's opinion in *Haslip*. Instead, the Swarovski defendants opted in their opening brief on appeal to challenge the sufficiency of the evidence to support the fraud claim that gave rise to punitive damages and the sufficiency of the evidence of outrageous conduct to support *any* award of punitive damages.

The "substantive" due process challenge that is the subject of the third question presented in the Swarovski defendants' petition was not raised on appeal to the Third Circuit until the Swarovski defendants' reply brief. *Compare* Resp. App. 6-9 (Swarovski Defendants' Third Circuit Opening Brief at pp. 44-48) *with* Resp. App. 14-15 (Swarovski Defendants' Third Circuit Reply Brief at pp. 31-32) and App. 114-16 (Swarovski Defendants' Third Circuit Petition for Rehearing at pp. 12-14).

Under the decisional law of this Court and of the Third Circuit, the Swarovski defendants have forever waived any "substantive" due process challenge they may have had. *See Browning-Ferris Indus.*, 492 U.S. at 277 & n.23 (due process challenge to award of punitive damages waived for failure to preserve issue at necessary points in proceedings below); *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970); *McLendon v. Continental Can Co.*, 908 F.2d 1171, 1183 (3d Cir. 1990) ("[s]ince the reply brief is the final written word from appellate parties without leave of the court, R. App. P. 28(c), it

would be manifestly unfair to permit an appellant to interject issues to which the appellee cannot now respond").[12]

Before the Third Circuit panel, the Swarovski defendants conceded that they waited too long to assert a *Haslip* challenge on appeal. *See* Resp. App. 29-30 (Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at p. 20); Resp. App. 18 (Swarovski Defendants' Response Filed Dec. 24, 1992 to Motion to Strike at p. 3). As a result, this Court should not reach out to consider whether the Third Circuit erred when that court's decision may have been based on the Swarovski defendants' failure to preserve a "substantive" due process challenge to the award of punitive damages.

This is not to suggest, of course, that the Swarovski defendants' "substantive" due process challenge has any merit. The jury's punitive damages award clearly survives review under both *TXO* and *Haslip*. The district court reviewed the punitive damages award for reasonableness. *See* App. 44-46. Certainly, in light of the Swarovski defendants' intentional and malicious outrageous conduct, described above in the Statement of the Case at 2-9 and evidenced in the references to the record in the Third Circuit, it cannot be said as a matter of "substantive" due process that the jury's award of punitive damages in this case is unreasonable.

The district court gave the jury adequate guidance concerning the purposes of punitive damages, required the jury to consider the character and degree of the Swarovski defendants' wrongs, and explained that the imposition of punitive damages was not mandatory. *See* Rec. 3580-81. The district court also informed the jury of the parties' agreement concerning the Swarovski defendants' net worth, which was stipulated to be *in excess of* $200,000,000.00.[13] *See* Rec. 3528.

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12. *See also Yakus v. United States*, 321 U.S. 414, 444 (1944) ("No procedural principle is more familiar to this Court than that a constitutional right may be forfeited in criminal as well as civil cases by the failure to make timely assertion of the right before a tribunal having jurisdiction to determine it.").

13. When the Swarovski defendants assert in their petition that the stipulation provided that their net worth *equalled* $200,000,000.00, they are not telling the truth. *See, e.g.*, App. 46 ("The defendants' net worth was

In short, the jury received adequate guidance from the district court concerning whether to award punitive damages, and it cannot be said that the jury's award is so "grossly excessive" as to violate due process. *See TXO,* 61 U.S.L.W. at 4771 (STEVENS, J., joined by THE CHIEF JUSTICE and BLACKMUN, J.); *see also id.* at 4774 (SCALIA, J., joined by THOMAS, J.) ("The Court's decision is valuable, then, in that the great majority of due process challenges to punitive damages can henceforth be disposed of simply with the observation that 'this is no worse than *TXO.*' ").

Because the Swarovski defendants' "substantive" due process challenge to the jury's award of punitive damages was waived in the Third Circuit, and because the challenge is, in any event, clearly without merit, this Court should reject the Swarovski defendants' third ground for granting certiorari.

NOTES *(Continued)*

stipulated to be in excess of $200 million dollars."); *see also* Rec. 3517-18, 3528 (setting forth actual stipulation).

CONCLUSION

For the foregoing reasons, E&R respectfully requests that this Court deny the petition for a writ of certiorari.

Respectfully submitted,

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RESPONDENT'S APPENDIX

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

No. 92-1746

EBELING & REUSS LTD., t/a
EBELING & REUSS COMPANY,

Plaintiff/Appellee,

v.

SWAROVSKI INTERNATIONAL TRADING CORPORATION A.G.,
SWAROVSKI AMERICA LIMITED,
SWAROVSKI AKTIENGESELLSCHAFT and
D. SWAROVSKI & CO.,

Defendants/Appellants.

MOTION OF PLAINTIFF/APPELLEE EBELING & REUSS, LTD. TO STRIKE ARGUMENT RAISED FOR THE FIRST TIME IN THE REPLY BRIEF OF DEFENDANTS/APPELLANTS

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MOTION TO STRIKE

In their reply brief filed December 14, 1992 in appeal No. 92-1746, defendants/appellants Swarovski International Trading Corporation A.G., Swarovski America Limited, Swarovski Aktiengesellschaft and D. Swarovski & Co. have asserted for the first time on appeal that the jury's award of punitive damages on Ebeling & Reuss's fraud claim cannot survive due process scrutiny. Plaintiff/appellee Ebeling & Reuss (E&R) respectfully moves for the entry of an order striking that argument from the Swarovski defendants' reply brief because the argument was raised there for the first time on appeal, thus depriving E&R of the opportunity to respond. In support of this motion, E&R avers:

1. In appeal No. 92-1746, the Swarovski defendants have appealed from the final judgment of the United States District Court for the Eastern District of Pennsylvania upholding the jury's award of $16.5 million in punitive damages on E&R's fraud claim against the Swarovski defendants.

2. On October 14, 1992, the Swarovski defendants filed their opening brief in appeal No. 92-1746.

3. In their opening brief, the Swarovski defendants advanced two challenges to the jury's award of punitive damages on E&R's fraud claim. *See* Exhibit "A," Opening Brief of Swarovski Defendants at 44-48 (reproducing in full the Swarovski defendants' challenges to the jury's award of punitive damages on E&R's fraud claim as set forth in the Swarovski defendants' opening brief on appeal). First, the Swarovski defendants contended that "the district court improperly allocated the entire punitive damage award to the one affirmed claim of fraud." *See id.* at 44-46. Second, the Swarovski defendants contended that "there is no substantial evidence of outrageous conduct to support an award of punitive damages." *See id.* at 46-48.

4. Nowhere in their opening brief did the Swarovski defendants argue that the jury's award of punitive damages violated the Swarovski defendants' right to due process under the United States Constitution. *See* Exhibit "A," Opening Brief of Swarovski Defendants at 44-48 (reproducing in full the

Swarovski defendants' challenges to jury's award of punitive damages on E&R's fraud claim).

5. E&R filed its brief in response to the brief of the Swarovski defendants on November 13, 1992.

6. In its response brief, E&R noted on page 37 and in footnote 24 that the Swarovski defendants had failed in their opening brief on appeal to raise any challenge to the constitutionality of the jury's award of punitive damages on E&R's fraud claim. *See* Exhibit "B," Response Brief of E&R at 37 & n.24.

7. The failure of the Swarovski defendants to raise a due process challenge to the jury's award of punitive damages on E&R's fraud claim in their opening brief on appeal was noteworthy because the Swarovski defendants had advanced such a due process challenge in the district court.

8. Because the Swarovski defendants did not raise a due process challenge to the jury's award of punitive damages in their opening brief on appeal, E&R did not address the merits of such a challenge in E&R's response brief. *See* Exhibit "B," Response Brief of E&R at 34-37 (reproducing in full E&R's response to the issues raised in the Swarovski defendants, opening brief on appeal pertaining to the jury's award of punitive damages on E&R's fraud claim).

9. On December 14, 1992, the Swarovski defendants filed their reply brief in support of their appeal at No. 92-1746.

10. In their reply brief, the Swarovski defendants have asserted for the first time on appeal, in a paragraph that begins on page 31 and ends on page 32, that the jury's award of punitive damages on E&R's fraud claim violates their right to due process under the United States Constitution. *See* Exhibit "C," Reply Brief of Swarovski Defendants at 31-32.

11. Federal Rule of Appellate Procedure 28(c) provides, in relevant part:

> **Reply Brief.** The appellant may file a brief in reply to the brief of the appellee, and if the appellee has cross-appealed, the appellee may file a brief in reply to the response of the appellant to the issues presented by the cross appeal. No further briefs may be filed except with leave of court.

Fed. R. App. P. 28(c).

12. Under Rule 28(c), appellee E&R is prohibited, without leave of court, from answering the due process challenge to the jury's award of punitive damages on E&R's fraud claim that the Swarovski defendants have raised for the first time on appeal in their reply brief.

13. It is well settled that "[a]s a general matter, the courts of appeals will not consider arguments raised on appeal for the first time in a reply brief." *Hoxworth v. Blinder, Robinson & Co.*, 903 F.2d 186, 205 n.29 (3d Cir. 1990).

14. This Court explained in *McLendon v. Continental Can Co.*, 908 F.2d 1171, 1183 (3d Cir. 1990), that "[s]ince the reply brief is the final written word from appellate parties without leave of the court, R. App. P. 28(c), it would be manifestly unfair to permit an appellant to interject issues to which the appellee cannot now respond."

15. This Court suggested in *Hoxworth*, 903 F.2d at 205 n.29, that "exceptional circumstances" are required to permit an appellant to raise an argument for the first time on appeal in the appellant's reply brief.

16. Here, the Swarovski defendants rely upon *Pacific Mut. Life Ins. Co. v. Haslip*, 111 S. Ct. 1032, 1044 (1991), in support of their newly raised due process challenge to the jury's award of punitive damages on E&R's fraud claim.

17. The Supreme Court of the United States rendered its decision in *Haslip* on March 4, 1991, some nineteen months before the Swarovski defendants filed their opening brief in this appeal.

18. The district court brought the *Haslip* decision to the attention of the Swarovski defendants in the district court's opinion, which provides the basis for the judgment that is now before this Court for review.

19. Thus, no "exceptional circumstances" exist here to justify deviating from the general rule that arguments raised on appeal for the first time in a reply brief are waived.

WHEREFORE, E&R respectfully requests the entry of an order striking from the Swarovski defendants' reply brief filed December 14, 1992 in appeal No. 92-1746 the paragraph that begins on page 31 and ends on page 32 of the reply brief,

including the footnote to that paragraph. *See* Exhibit "C," Reply Brief of Swarovski Defendants at 31-32. Alternately, E&R respectfully requests leave, pursuant to Federal Rule of Appellate Procedure 28(c), to respond to the due process challenge to the jury's award of punitive damages on E&R's fraud claim, which the Swarovski defendants have raised for the first time on appeal in their reply brief.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Motion to Strike was served via hand delivery upon the attorney for defendants/appellants, at the address and on the date that appear below:

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Dated: December 21, 1992

/s/ Howard J. Bashman

Howard J. Bashman

is therefore completely contrary to the terms of the Disney contract itself, and requires reversal under the holding of this court in *Tunis Bros.* In that decision, the Court made it clear that a party is limited to seeking lost profits damages for the actual duration of the contract term. It may not expand that time period to include additional years in which it would hope to operate, but for which it had no commitment. *See* 952 F.2d at 735.

V. THE DISTRICT COURT ERRED IN FAILING TO GRANT SWAROVSKI'S MOTION TO ALTER OR AMEND THE JUDGMENT BECAUSE THE AWARD OF $16.5 MILLION IN PUNITIVE DAMAGES IS NOT SUPPORTED BY SUFFICIENT EVIDENCE.

The district court affirmed the award of $16.5 million in punitive damages based solely on the jury's finding of fraud. For two reasons, the assessment of punitive damages was improper and must be reversed.

A. The District Court Improperly Allocated The Entire Punitive Damage Award To The One Affirmed Claim Of Fraud.

The jury awarded $16.5 million in punitive damages based on its liability findings on E&R's multiple claims of tortious interference and fraud, but did not apportion this amount between these separate claims. Although the district court reversed judgment on E&R's four claims of tortious interference and its claim of fraud against E&R, Ltd., it nonetheless affirmed the $16.5 million in punitive damages in its entirety. Such affirmance of the punitive damage award, in effect allocating the entire award to only one of the multiple claims E&R argued to the jury in connection with punitive damages, was improper.

It is well-established that where a general award of punitive damages is based upon more than one cause of action, one of which is reversed, the punitive damage award must be set aside. *See Murphy Door Bed Co. v. Interior Sleep Sys., Inc.*, 874 F.2d 95, 104 (2d Cir. 1989); *Litman v. Massachusetts Mut. Life Ins. Co.*, 739 F.2d 1549, 1562 (11th Cir. 1984), *cert. denied*, 484

U.S. 1006 (1988). *See also Midnight Sessions, Ltd. v. City of Philadelphia,* 945 F.2d 667, 687 n.19 (3d Cir. 1991), *cert. denied,* 112 S.Ct. 1668 (1992). In *Litman,* the plaintiff obtained an award of punitive damages based on two claims of slander. On appeal, the Eleventh Circuit reversed judgment on one of the two claims. Based on that reversal, the Eleventh Circuit remanded the punitive damage issue to the trial court for a new trial, stating that "[t]his result is unavoidable in light of the fact that the jury's $250,000 punitive damage award was made in response to a single question on the special verdict form." *Id.* Indeed, because punitive damages are awarded based upon a theory that outrageous conduct should be punished, the court held that the punitive damage award could not be sustained "based partly on the perceived outrageousness of that (nonslanderous) statement." *Id. See also Barnes Group, Inc. v. C&C Prods., Inc.,* 716 F.2d 1023, 1034 (4th Cir. 1983) (vacating and remanding on the issue of punitive damages because the award hinged on six liability findings, four of which were reversed).

Similarly, the plaintiff in *Murphy Door* obtained an award of punitive damages based on claims of trademark and unfair competition. In reversing the liability finding on the trademark claim, the Second Circuit held that the award of punitive damages must be remanded because "we are unable to determine what fraction of the punitive damages award, if any, is attributable to unfair competition." 874 at 104.

In this case, the jury awarded $16.5 million in punitive damages in response to a single question on the special verdict. *See* App. 1473a-75a (Opinion at Appendix B). As the district court recognized, this award was based on four claims of tortious interference and on two claims of fraud, one before and one after the buy-out. *See* App. 1436a (Opinion at 43). Nonetheless, the court upheld the award despite reversing the jury's finding of liability on five of the six claims supporting it. As discussed above, the district court cannot uphold an award of punitive damages in its entirety based partly on claims which have been held to state no legal cause of action. Consequently, the award of punitive damages must be reversed and remanded.

B. There Is No Substantial Evidence Of Outrageous Conduct To Support An Award Of Punitive Damages.

In awarding punitive damages, Pennsylvania law requires that the fact-finder consider (1) the character of the act, (2) the nature and extent of the harm, and (3) the wealth of the defendant. *Tunis Bros.*, 952 F.2d at 740 (citing *Kirkbride v. Lisbon Contractors, Inc.*, 555 A.2d 800, 802 (Pa. 1989)). Pennsylvania law further requires that, with regard to the first factor, the defendant's conduct be outrageous. *Id.* (citing *Feld v. Merriam*, 485 A.2d 742, 748 (Pa. 1984)).

In *Tunis Bros.*, this Court addressed the requirement of outrageous conduct in the context of a claim for fraud:

> [w]here fraud . . . is the basis for the recovery of compensatory damages, . . . the same fraud is not alone a sufficient basis upon which to premise an award of punitive damages . . . . If the rule were otherwise, punitive damages could be awarded in all fraud cases. That is not the law. The rule, rather, is that for punitive damages to be awarded there must be acts of malice, vindictiveness, and a wholly wanton disregard for the rights of others.

952 F.2d at 740-41 (citing *Smith v. Renault*, 564 A.2d 188, 193 (Pa. 1989)). Based on this proposition, this Court concluded that an award of punitive damages "requires a quantum of outrageous conduct in addition to that undergirding the fraud liability and compensatory damages." *Id.* at 741.

The district court completely ignored this Court's discussion of the standard by which to evaluate the requisite outrageous conduct. In its opinion, which directs scant attention to the requirement at all, the district court supported its belief that there was outrageous conduct on the part of Swarovski by simply stating that Swarovski's witnesses were arrogant, and that the jury found against Swarovski on all counts.[15] App. 1436a (Opinion at 43).

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15. The district court also states that Swarovski was using its manufacturing capacity to make injection molded figurines to compete with E&R while refusing to deliver the Disney figurines in breach of contract. App. 1436a (Opinion at 43). Presumably, this statement refers to the preliminary injunction, in which the district court ordered Swarovski to produce such figurines.

These "facts" are entirely insufficient to support the requisite finding of outrageous conduct. Any arrogance on the part of Swarovski's witnesses is completely irrelevant to an award of punitive damages. Punitive damages can only be awarded based on tortious conduct of a defendant, not on the personality traits of its officers at trial.[16] Similarly, the finding of liability, even on all counts, is not evidence of outrageous conduct. *See Tunis Bros.*, 952 F.2d at 741; *Smith*, 564 A.2d at 193. Rather, there must be acts of malice, vindictiveness or wholly wanton disregard of the rights of others, in addition to that which supported the finding of fraud liability and the award of compensatory damages, in order to support an award of punitive damages. *Tunis Bros.*, 952 F.2d at 741. In this case, E&R introduced no evidence of outrageous conduct in addition to that which it used to argue its claim of fraud, namely that Swarovski induced E&R into a contract for the purpose of testing the market. Such evidence is legally insufficient to support an award of punitive damages under Pennsylvania law and the decisions of this Court, and the award of punitive damages should be reversed.

CONCLUSION

Because the Plaintiff neither established the elements of a cause of action against the Swarovski Defendants, nor offered proper evidence of the damages that it suffered by reason of the conduct alleged, the judgment entered below should be reversed. Given that the evidence introduced at trial conclusively

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However, as this matter was not before the jury, it cannot support a finding of outrageous conduct on the part of Swarovski.

16. The trial court's reliance in the Opinion on its perception of "arrogance" in Swarovski's witnesses is a troubling reprise of a hostility toward Defendants that pervaded the proceedings below and lead to Swarovski's filing of the Motion for Disqualification considered in the opinion. Swarovski does not appeal here from the denial of that motion. However, the re-emergence of this aspect of the case as a basis for upholding a $16.5 million punitive damage award requires that we note that the Opinion of the district court understated the tenor of what went on below. *Compare* App. 1461a-62a (Opinion at 68-69), *with* 204a.

evidence available. There is no evidence here that industry performance contradicted the Cook projections.[22]

The Swarovski defendants also challenge Cook's extrapolation from the initial three-year projections to project product line growth over a twelve-year period. Contrary to the defendants' assertions, Cook's projections were not based solely or uncritically upon the initial projections but were supported by numerous objective factors. *See* App. at 2302, 2342, 3159-61. As a result, this Court should hold that the district court did not err in rejecting defendants' demand that the jury's award of lost profits be set aside.

IX. The Swarovski Entities' Challenge to the Jury's Award of Punitive Damages is Both Waived and Without Merit

In the final issue they raise on appeal, the Swarovski entities advance two challenges to the district court's refusal to set aside the jury's award of $16.5 million in punitive damages. First, the Swarovski parties contend that because the district court granted them judgment notwithstanding the verdict on three of the four claims that *could* support an award of punitive damages, the district court should have vacated the $16.5 million dollar award and held a new trial limited to the assessment of punitive damages.[23] Second, the Swarovski entities

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22. The Swarovski entities were themselves in the crystal marketing industry. If actual industry performance rebutted E&R's projections, the Swarovski defendants certainly had the right to introduce evidence of such actual performance. In fact, the projections E&R relied upon at trial were considered reasonable by the Swarovski parties before this suit commenced, *see* App. at 1855, 1862-64, 1872-73, 1903-05; Supp. App. at 143, were consistent with the Swarovski parties' own secret projections of $19 million in profits over the first three years, *see* App. at 1982-84, 2880-81, 4182-83; Supp. App. at 12-13, 27, and were consistent with Swarovski America's "excellent" sales of the knock-off "Crystal Collectibles" line, which was not marketed as effectively as E&R had marketed its "Crystal Signatures" line, *see* App. at 3119-22, 3160-61.

23. Despite the Swarovski defendants' assertion to the contrary, the district court did not set aside *three* of the *four* claims that *could* have supported an award of punitive damages. The district court charged the jury

argue that there is no evidence of their outrageous conduct to support the jury's award of punitive damages. Neither argument has any merit.

A. The entire punitive damages award should be sustained

The Supreme Court of Pennsylvania made clear in *Kirkbride v. Lisbon Contractors, Inc.*, 555 A.2d 800, 803 (Pa. 1989), that under Pennsylvania law the purpose of punitive damages is to "punish a tortfeasor for outrageous conduct and to deter him or others from similar conduct." Thus, the district court reasoned that "[t]he jury determined the amount of punitive damages based on the nature of defendants' actions, not the theory of defendants' liability." App. at 1436.

The district court upheld the jury's verdict finding that the Swarovski entities defrauded E&R Co. The evidence supporting that finding encompassed all the defendants' outrageous conduct the jury heard about and saw at trial. The Swarovski entities engaged in a single scheme of fraudulent conduct that began before the time they entered into their contract with E&R Co. and ended at the time that E&R Ltd. discovered, after initiating this lawsuit, that the Swarovski entities were actually selling the line themselves, in violation of E&R's exclusive rights. Thus, even if the district court were correct that E&R Ltd. suffered no additional monetary damages as a result of the fraud, it is clear that E&R Ltd. continued to rely upon the Swarovski entities' fraudulent promises to E&R Co. Thus, the district court did not err in upholding the entire amount of the jury's punitive damages award.

If it were error for the district court to uphold the jury's award of punitive damages while setting aside the jury's finding of fraud against E&R Ltd., this Court should hold that the

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NOTES *(Continued)*

that the only claim on which it could return an award of punitive damages was E&R's fraud claim. *See* App. at 3580. Thus, the district court's ruling setting aside E&R's claims of tortious interference had no effect on the punitive damages award, because the jury was not told it could award punitive damages on the tortious interference claims.

district court erred in setting aside the jury's finding of fraud against E&R Ltd.

The only reason the district court set aside the jury's finding of fraud against E&R Ltd. was because the district court found that E&R Ltd. failed to introduce sufficient evidence that it suffered damage as a result of the fraud separate from the lost profits resulting from the breach of contract. *See* App. at 1414-15. This was an argument that the defendants failed to raise in the district court; accordingly, it was an improper basis for the district court to grant post-trial relief. *See Mallick*, 644 F.2d at 233.

Moreover, under Pennsylvania law proof of damages is not required to establish liability on a claim for fraud. *See Sands v. Forrest*, 434 A.2d 122, 124 (Pa. Super. Ct. 1981). The court in *Sands* wrote:

> In the first place, appellants' failure to prove damages was not determinative of the substantive issue of appellees' alleged liability for fraud and deceit. If plaintiffs were entitled to a verdict on the cause of action alleged, but were unable to prove damages, they were nonetheless entitled to a verdict for nominal damages.

Id. Thus, the district court erred in granting judgment notwithstanding the verdict on the jury's finding that the Swarovski defendants committed fraud against E&R Ltd.

Once the jury's finding of liability on the claim of fraud against E&R Ltd. is restored, it is clear that the jury's award of punitive damages must be sustained even under defendants' argument. The mere fact that only nominal damages would be available for the claim of fraud against E&R Ltd. does not undermine the jury's award of punitive damages, for the Supreme Court of Pennsylvania has held that a finding of liability without actual damages is sufficient to sustain a jury's award of punitive damages. *See Kirkbride*, 555 A.2d at 802-03.

B. Defendants' challenge to the sufficiency of the evidence to support the jury's punitive damages award is waived and without merit

The Swarovski parties' challenge to the sufficiency of the evidence supporting the jury's punitive damages award is waived. The Swarovski parties failed to challenge the sufficiency of the evidence to support an award of punitive damages in their motion for a directed verdict at the close of plaintiff's case, *see* App. at 969-74, in their supporting brief, *see* App. at 976-85, or in their "Renewal of Motion for Directed Verdict," *see* App. at 986-88. Instead, the Swarovski parties' objection to the jury being charged on punitive damages was limited to a challenge to the constitutionality of awarding punitive damages unrelated to the amount of actual damages.[24] *See* App. at 3484-86, 3583-84. Thus, any challenge to the sufficiency of the evidence to support the punitive damages award is now wholly waived. *See Mallick*, 644 F.2d at 233.

In any event, the jury unquestionably was entitled to view the Swarovski defendants' conduct, outlined in the "Statement of Facts," *see supra* at 7-14, as outrageous and deserving of punishment. Helmut Swarovski himself agreed that what the Swarovski entities did to E&R was "wrong" and "unfair." *See* Supp. App. at 25-26, 28-29.

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24. On appeal, the Swarovski parties have abandoned this argument.

EXHIBIT "C"

In its Brief, E&R fails entirely to satisfy this standard. E&R does not identify specific conduct by Swarovski that is "outrageous," nor does it demonstrate how that conduct was in addition to or different from that which supported the finding of fraud. Instead, it refers back to its eight page "Statement of Facts," the inaccuracy of which has been addressed above, *see* supra, Section II, and summarily concludes that there was outrageous conduct. This is clearly insufficient to support an award of punitive damages in any amount, much less in the amount of $16.5 million.

This appellate Court is constitutionally obligated to make an independent review of the punitive damage award both as to whether the evidence supports such an award in any amount, and if so, whether the amount awarded is greater than that reasonably necessary to punish and deter. *Pacific Mut. Life Ins. Co. v. Haslip,* 111 S. Ct. 1032, 1044 (1991). This action is particularly called for here in light of the trial court's defective *Haslip* review. In the face of a $200 million stipulated net worth for Defendants, the trial court upheld a punitive award amounting to 8.25% of that figure, which is far in excess of the usual court approved percentage.[18] In so affirming this award, the district court relied on an unsupported guess that the Swarovski's "extreme wealth" was "far in excess of the amount stipulated." App. 1436a (Opinion at 43). Further, the trial court compared the actual and punitive damages considering all claims and conduct, including the non-tort claims for which no punitive damages may be awarded. *Id.* And, in so doing, the trial court improperly compared the $16.5 million punitive award, not to the $850,000 in out-of-pocket damages, but to the $25 million award of lost profits, an amount which is clearly benefit of the bargain damages for breach of contract. *See Delahanty v. First Pennsylvania Bank, N.A.,* 464 A.2d 1243 (Pa. Super. 1983).

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18. "[A] typical ratio for a punitive damages award to a defendant's net worth [is] around one percent." *Cash v. Beltmann N. Am. Co.,* 900 F.2d 109, 111 n.3 (7th Cir. 1990).

Accordingly, the trial court's analysis failed to provide an effective and constitutionally necessary counterweight to the jury's wide discretion.

XI. THE DISTRICT COURT PROPERLY GRANTED JUDGMENT NOTWITHSTANDING THE VERDICT ON E&R'S TORTIOUS INTERFERENCE CLAIM.[19]

A. There Is Insufficient Evidence To Support E&R's *Tortious Interference With Existing Contracts Claim.*

The district court correctly recognized that Swarovski America, Ltd. could not, as a matter of law, interfere with the contracts of the other Swarovski Defendants.[20] In an attempt to defeat this holding, E&R disingenuously advances two arguments.[21] First, it states that "the evidence demonstrated that

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19. Sections XI–XVII are Swarovski's reply points as Cross-Appellee in No. 92-1723.

20. In addition to the claim of tortious interference with its existing Swarovski contracts, E&R also claimed that Swarovski interfered with its existing contract with Disney. The district court granted Defendants judgment notwithstanding the verdict on this claim as well, and E&R does not appeal that finding.

21. These two are in addition to the nearly ritual invocation of "waiver." Swarovski moved for directed verdict on the tortious interference claim. *See* App. 972a. This motion is sufficient to preserve the point that the Swarovski companies could not interfere with each *other's* contractual relations,

(continued on next page)

Nos. 92-1723
and 92-1746

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., et al.,
Appellants and Cross-Appellees
v.
EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,
Appellee and Cross-Appellant

RESPONSE AND OBJECTION OF THE SWAROVSKI DEFENDANTS/APPELLANTS TO THE MOTION TO STRIKE OF PLAINTIFF/APPELLEE EBELING & REUBS, LTD.

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RESPONSE AND OBJECTION

Plaintiff Ebeling & Reuss, Ltd. ("E&R") has moved to strike one paragraph from the Reply Brief of Appellants/Cross-Appellees filed on December 14, 1992, on the ground that it constitutes a "newly raised due process challenge to the jury's award of punitive damages on E&R's fraud claim". *See* Motion to Strike at 4, ¶16. Plaintiff's Motion is without merit. Contrary to E&R's assertion, the paragraph that it is moving to strike, which begins on page 31 of the Reply Brief, does not "newly raise" a due process argument, nor does it cite *Pacific Mutual Life Co. v. Haslip,* 111 S.Ct. 1032 (1991), for such a proposition, as Plaintiff claims.

The Swarovski Defendants original Appellants' Brief asserted that the district court erred in entering judgment on the $16.5 million punitive damages verdict because, among other reasons, the evidence was not sufficient to satisfy the applicable standard under Pennsylvania law for the imposition of such a punitive judgment. *See* Brief of Appellant at 46-48; *Tunis Bros. v. Ford Motor Co.,* 952 F.2d 715, 739-41 (3rd Cir. 1991). In its response to this argument, E&R chose to concentrate almost entirely on the contention that Swarovski had "waived" the sufficiency point and made only passing reference to its own inaccurate and incomplete Statement of Facts as support for the proposition that it had met the Pennsylvania requirements. *See* Brief of Appellee at 37. E&R apparently hoped that the Court would give only cursory review to the question of the sufficiency of the evidence to satisfy the punitive damages standard.

In their Reply, the Swarovski Defendants first demonstrated that there had been no waiver of the sufficiency point. *See* Reply of Appellants at 9. They then noted Plaintiff's failure to identify evidence sufficient to justify the $16.5 million award under Pennsylvania law. *Id.* at 30-31. Finally, Defendants noted that this appellate Court's own review of the punitive damage award to ensure that it meets the requisite legal standard – a review undertaken in *Tunis Bros.* and in decisions before and since – is itself important in saving a punitive damage scheme from unconstitutionality. *See Haslip,* 111 S.Ct. at 1044-45. In this regard, *Haslip* is cited to note that appellate court review in

the context of a challenge to punitive damages is not the small thing E&R tries to make it. As to the substance of Swarovski's argument, the Swarovski Defendants asserted the same argument in Reply as in the original Appellants' Brief – the award cannot stand when the evidence is judged against the applicable legal criteria set out in this Court's *Tunis Bros.* decision.

Since the Court hardly needs a Motion to Strike to deal with an argument raised for the first time in reply, *see, e.g., Hoxworth v. Blinder, Robinson & Co., Inc.*, 903 F.2d 186, 204 n. 29 (3rd Cir. 1992), perhaps the underlying motive behind E&R's Motion is the recognition that it has never met Swarovski's argument on sufficiency and that it would benefit from the alternative requested relief of leave to reply again on the punitive damages issue. However, no justification exists for such a reopening in response to the Swarovski Defendants notation of the importance of appellate review to a scheme of punitive damages. The Swarovski Defendants do not say that the Pennsylvania requirements for punitive damages set out in their original Brief (p. 46) are unconstitutional under *Haslip,* they say that Pennsylvania's requirements were not met by Plaintiff's evidence and they seek this Court's review of that evidence in light of those legal requirements.

Accordingly, the Swarovski Defendants respectfully request the Court to deny the Motion to Strike of Plaintiff/Appellee Ebeling & Reuss, Ltd.

Respectfully submitted,
/s/ Theodore R. Mann

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served on all counsel of record via hand delivery on this the 24th day of December, 1992.

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

EBELING & REUSS, LTD. :
t/a EBELING & REUSS COMPANY, :
Appellant No. 92-1723 :
vs. :
SWAROVSKI INTERNATIONAL TRADING :
CORPORATION A.G.; D. SWAROVSKI & CO.; :
SWAROVSKI AMERICA LIMITED; :
SWAROVSKI AKTIENGESELLSCHAFT :
Appellants No. 92-1746 :

Transcript of tape-recorded oral argument in the above-entitled matter, held at the U.S. Courthouse, 601 Market Street, Philadelphia, Pennsylvania, on Tuesday, March 16, 1993. Transcribed by James DeCrescenzo, a Registered Professional Reporter and Notary Public.

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THE COURT: We will hear argument in *Ebeling & Reuss, Ltd. v. Swarovski International Trading Corporation, A.G.*

Good morning, Mr. Byrd.

MR. BYRD: Good morning, your Honor. May it please the Court, my name is Michael Byrd and I'm appearing here today on behalf of the Swarovski appellants who were defendants below.

The four briefs and the appeal and the cross appeal of this case total about 170 pages, as I expect the court is fully aware, and if –

THE COURT: Yes, indeed. We're painfully aware of that fact.

MR. BYRD: If I have the time I still wouldn't have either the inclination or the intention of trying to touch on all of the points raised in those 170 pages.

What I want you to know primarily is that the plaintiff's case below consisted largely, if not entirely, of the testimony of Mr. Michael Russo, who was the president of the E&R division of Alco Standard Corporation in 1987, that's when he became the president, and who subsequently led the leveraged buy-out in 1988.

What Mr. Russo testified to was that by July 22, 1986, a contract had come into existence between Swarovski and E&R whereby Swarovski agreed to dedicate its injection molding process for the manufacture of miniature crystal figurines entirely to the production for figurines for E&R, and that it would do so, and this is a direct quote from Mr. Russo's testimony, "for as long as the merchandise was selling in the market and we chose to continue producing it and selling it."

These two points are crucial to an understanding of this case.

First, the notion that the exclusivity went to the technology, that it was a lock on the whole technology is the promissory fraud case. That is, that is what they argued. That's what the District Court found was the promissory fraud, that you promised us a lock on the technology at the time, that you didn't mean it.

And secondly, the second premise, that it was a contract to last for as long as the stuff was selling, is absolutely essential for

plaintiffs, both his breach of contract claim and the damages that supposedly flow from that, which were testified to, over a ten-to-twelve-year period.

It is our position that neither of those two notions or aspects can survive review, as a matter of law, based upon the record.

With respect to the duration, that the contract was for as long as this stuff is selling in the market, that is, as a matter of law, a contract of indefinite duration. The cases are absolutely clear that where the agreement between parties is we will go forward with this relationship for as long as it's selling, for as long as we want it, for as long as it's profitable, that is, as a matter of law, an indefinite duration. And where a contract has an indefinite duration, is a contract of indefinite duration, it is equally clear under both pre-UCC law and the UCC that it is terminable at will by either party.

So we do not have — this is not a proposition, in fact, which if you, if when the briefs are read carefully E&R denies. E&R says something really entirely differently. it says, Oh, this contract had a term. The jury necessarily found that it had a term because it returned a verdict and it returned damages. And then if you read both, and we cite them in the argument and the testimony and the brief, what is this definite term?

Well, maybe it was ten years or twelve years or five years; they could have found it was this. At one point in his, in his argument on damages, counsel says to the jury, Well, you found it has a definite term. I don't know what that term is. We have the party who proposes the contract that is supposed to have a definite term unable to identify it, nor is he able to —

THE COURT: Well, they say it's for the life of the product cycle.

MR. BYRD: Well, your Honor, that is not — life of the product cycle is the definition Mr. Russo gave, is the tag Mr. Russo gave to the notion that it is for as long as it's selling. That's the life of the product cycle. And that is not — two things, that is simply a shorthand way of referring to for as long as it's selling, first.

Secondly, there is no evidence, and this really leads directly into and is also an aspect of the sufficiency of the

evidence on lost profits, into the notion that there was no evidence of what that life of the product cycle would be.

That's not that it's ten-to-twelve years by understanding in the industry. It is literally how long would this product sell.

And that is by definition an indefinite term, not a definite one.

And again, it seems to me there really is no better evidence than that, than their attempt, the proponents' attempt to identify the term. They can't do it. They couldn't do it in the evidence, they couldn't do it in argument, and they can't do it in their briefing after the jury has come in entirely.

This is both I think a point on liability and a point on damages, because it is one of several really crippling defects with the evidence of lost profits.

First, we have the problem with the term, that it is clearly a contract terminable at will, not one for which you can get damages over the ten-to-twelve-year period that was testified to.

Secondly, heavily relied upon, both by Mr. Russo and by Mr. Cook and by counsel in argument as a basis for the lost profits damages was the fact of the Disney license, and that they were going to be manufacturing Disney product.

Yet the evidence in Exhibit 700, which is Mr. Cook's projection of sales, Disney sales are projected over a ten-year period ending at the end of 1998. Yet the evidence is absolutely clear that the Disney license, which appears in the evidence as Plaintiff's Exhibit 258, was a three-year license with a highly contingent one-year additional term.

So we have a contract whose term ended December 31, 1990 being used as the basis to project profits through 1998. As this court noted in its Tunis Brothers decision of last year, where a party also had a two-to-three-year contract, although there it was, it was an oral term and they wanted to project profits over a ten-year term because of their optimism about what could be accomplished, how long they were going to be able to do it, this court said, No, you can't do that. Two-to-three-year term, two-to-three years' worth of damages, that's what has to be, that's what has to be rewarded.

And frankly, the Disney problem is a double one, because it's not just that it's the number of years that are wrong. If the

court looks to what's pointed to, including what's pointed to in E&R's brief as the objective factors that support the huge projections, over and over and over again it's Disney. The number of people that go through Disney parks, the number of people that buy Disney figurines, they lean – Disney was, you know, it was their weapon, it was their crutch, at every point. And yet they went beyond the term for which they had a license and speculated.

THE COURT: Couldn't the jury infer that this would be a very successful venture?

MR. BYRD: Your Honor, we submit that there is not sufficient evidence from which the jury could infer that this would be a very successful venture. There is generally not the evidence from which they would be permitted, as a matter of law, to infer that Disney, which had given a three-year license, would extend it over a ten-year period of time.

THE COURT: Well, they don't have to infer as a matter of law –

MR. BYRD: Well, no, as a matter of law there is no evidence –

THE COURT: Can't they infer as a matter of fact –

MR. BYRD: No, they cannot infer from the facts that were presented to them in this case, your Honor, that it, that it would justify – the point about the matter of law was that where you've got the three-year license, that's what you have to base your damages on.

Further, generally, even if we grant the ten-to-twelve-year period, there was not the sort of evidence which the law requires in order to permit the calculation of lost profits damages. We accept utterly the notion that you cannot have, you know, entire accuracy or – you know, in assessing lost profits damages necessarily, that some uncertainty is clear, and is going to have to be tolerated, and E&R cites the Pennsylvania Supreme Court's decision in Spang and where there they note that you're going to have some uncertainty and that entire accuracy cannot block recovery when someone has in fact been injured.

But there are two other aspects to the Spang case that also appear in this Court's Advent and Tunis Brothers decisions that are overlooked.

The first is, and this is from Spang, that the plaintiff in an action for breach of contract has the burden of proving damages resulting from the breach.

And the second is that what the law does require in cases of this character is that the evidence shall, with a fair degree of probability, establish a basis for the assignment of damages. Here that –

THE COURT: Well, what else were they going to do here?

MR. BYRD: Well, your Honor –

THE COURT: I mean they have an expert come in that made projections. If you're going to have lost profits, you've got to have projections.

You say the expert ignored the actual operating results. But they say, Well, those were tainted by late deliveries from your client and by these letters that your client allegedly wrote to, well, Mr. Metcalfe wrote to all our customers.

MR. BYRD: Well, this Court in Advent noted that, that what a plaintiff can do – noted from the Pennsylvania Supreme Court three ways it can be done: It can be done on the basis of past profits; it can be done on the basis of similar contracts if the circumstances are sufficiently the same; and it can be done by the opinion of experts if it's based on something more than, than opinion or speculation.

And in none of these three cases was that done. The projections that Mr. Cook used, and simply took off from with no explanation given as to where he went from three years to the ten to twelve that he used, were projections which, as we note in our brief, came from Mr. Russo's testimony. If you look at what Mr. Russo did to arrive at those figures which were done for his presentation to the Swarovski board, he said, and it's almost the call-me-a-taxi theory, the old joke "Call me a taxi. Okay, you're a taxi."

He said this line is going to replace the Hummel line, which we have lost. Despite the evidence that the Hummel line was the mainstay of our business, that it accounted for as much as 50 percent of our sales, that according to Plaintiff's Exhibit 8, which

they introduced, a survey of retailers of giftware as an indication of what are and are not popular lines, Hummel is the second most popular collectable line that there is. Despite all of that, what Mr. Russo said is this will replace Hummel. Therefore, the first year it will sell to half the Hummel retailers, the second year, 1988, it will sell to five-sixths of them, and by the third year, 1989, it will be selling to all 6,000 of our current Hummel retailers.

There was no evidence at all of any use of reference to the roll-out of new products. There was no evidence as to what new figurines do or don't do or how they develop, how they are marketed, what their history is.

It was We were previously selling one of the most popular lines of the century. It was the mainstay of our business. We have lost it, this is replacing it. Therefore, this will reach the Hummel level.

At one point in their brief they cite as an objective factor, which is one of the things that this Court requires if you're going to make these kind of projections, they cite to Mr. Cook's testimony when he was asked "Are you saying this is going to outsell Hummel?"

He said "Oh, oh, yes."

"And what's your evidence of that?"

"Well, they couldn't get enough Hummels. E&R couldn't get enough Hummels to sell."

THE COURT: Let me, if I might, try to help myself distill the issue. As I understand it then, you are suggesting that the underlying basis for the expert's testimony was flawed, but not that given the testimony that the jury's – the jury may not have reasonably concluded as it did, are you?

MR. BYRD: Well, first that, that it was flawed; that it was throughout, from beginning through to the end, pure conjecture. These numbers were –

THE COURT: Well, if an expert provided specific detailed information upon which a jury might reach a conclusion, then is that inviting speculation in the verdict as to the amount? Or are you attacking the basis for the expert's testimony as having been unfounded under, I believe, Advent?

MR. BYRD: We are attacking the basis of the expert's testimony as amounting to nothing more than individual opinions or conjecture.

THE COURT: But isn't that a different issue than the question of whether or not under the circumstances the jury's conclusion was not – the jury may not have reasonably inferred a specific amount?

MR. BYRD: The jury has to infer the amount from sufficient and appropriate evidence. As in Advent, the jury came up with an amount. What this Court said was that the evidence it had from which to come up with this amount was not based upon sort of underlying criteria that are required.

THE COURT: All right.

MR. BYRD: Beyond the issue, what E&R says in response to this is the thing I think, your Honor, Judge Stapleton suggested. It was all flawed because of our action.

Yet, there is no identification, as frankly the trial court recognized, of exactly what sales were lost because of the Metcalfe letter, which is the action identified as, as the great wrong. There's no suggestion in fact of any ultimate sales or figures on ultimate sales.

You can read the record from cover to cover, and there is no evidence that anybody actually has one of these things at home on his or her mantel or on a shelf.

Ultimate sales, how it was received in the market, the real market, absolutely no evidence submitted by plaintiff in that regard at all.

THE COURT: Did appellant object to the basis of Cook's expert testimony?

MR. BYRD: Yes, your Honor. The, the – and not only to his expertise, but also to the basis of his testimony. Was raised not only at the time, it was raised in the motion for directed verdict, it was raised in the renewal, it was raised in all of the posttrial actions.

There is here – certainly a man got on the stand and testified as an expert to very large numbers. Just as a man got on the stand in Advent and a man got on the stand in Tunis Brothers and testified to very large numbers. And the jury came back with a large number.

What is true here, as it was true in Advent, as it was true in Tunis Brothers, was that it was in fact nothing more than testimony of an expert, based on nothing more than individual opinions or conjecture, and that is not adequate under the law of this court.

With respect to Mr. Russo's point about the lock on the technology, beginning with Plaintiff's Exhibit 12, which was the Kurt Mignon to Steven Palmer 1986, March 20th of 1986 telex, and continuing through all of the draft contracts which Mr. Russo testified on his examination were an attempt at E&R's suggestion to document the July 22, 1986 contract, it is clear that there was no lock on the technology being discussed.

The Plaintiff's 12 is limited to an exclusive on the above-mentioned items. Mr. Russo said then in 1986, this is his-testimony, "We wanted to document this contract."

There are in evidence three contracts. They appear – draft contracts, they appear as Plaintiff's Exhibits 239, 259 and Defendant's Exhibit 357.

None of them have the definition of product or exclusivity that is a lock on the technology. All are limited to products designed by E&R.

When this case was originally brought in 1988 it had what is Defendant's Exhibit 357 attached to it as an exhibit. And what it sought was to compel execution of that contract with that provision.

There is simply nothing in the contemporaneous record, in the effort to document it, that indicates that there was any promise made for a lock on the technology. Yet that's the sole basis for the fraud and for all of the damages that allegedly flow, punitive damages that allegedly flow from the fraud.

We would note, particularly with regard to Plaintiff's Exhibit 259, part of it is an actual cover letter from a lawyer for Ebeling & Reuss that was then part of Alco. It says "Here's the draft contract containing the suggested changes by Ebeling & Reuss." And the definition of product, the definition of exclusivity being limited to E&R-designed product is absolutely unchanged.

It is exactly what Swarovski has contended that it was: It is limited to product of their design and not a lock on the technology.

With regard to the punitive damages –

THE COURT: Why isn't the issue of whether the – of the District Court, whether the District Court properly declined to reduce the punitive damage award waived? Why isn't it waived?

MR. BYRD: Excuse me, your Honor. It is not waived in any respect. With respect specifically, the issue was raised as to the excessiveness of the punitive damages posttrial by a motion to alter or amend. We appealed saying that the court erred in denying the motion to alter and amend, that the evidence doesn't justify both – first of all, one thing that couldn't be waived is that, having gotten rid of all the other tort claims, the court should not have affirmed the punitive damages entirely on the basis of the one that was left, which is a question of law.

And secondly is whether the evidence introduced justifies this amount of punitive damages, which was consistent argument, that the motions for directed verdict go to all of the tort claims, the – after the verdict came in with the amount of punitive damages, a motion was made to alter and amend based upon the fact the 16.5 million in punitive for this fraud, in addition, of course, on the trademark and trade secret, was unjustified. That was, that was denied, and it was appealed from saying that the court should have granted the motion to alter and amend.

Now I guess their argument is that because there was no – we wouldn't be entitled to a render because the motion for directed verdict does not specifically say there is no evidence on which the jury should award punitive damages.

It does, however, as to every single element of fraud, say that there is no evidence in every single tortious action, say that there is no evidence to justify it.

We weren't, by the way, trying to interject suddenly in our reply some constitutional issue. We were noting, which is a matter that has been raised, what we were noting was that the Court here, as it has recognized in its cases, and as Haslip has given constitutional dimension, has its obligation to review the punitive damage award.

Judge Shapiro reviewed it, she went down the checklist. It's just our position that she reached the wrong result and the justification of $16½ million, based upon the facts of this case, particularly since all of it rests on this promissory fraud, that frankly doesn't exist and has no support and is so greatly in excess of the actual out-of-pocket damages.

THE COURT: With respect to the – pardon me. With respect to the trademark case, did the court determine "crystal signatures" to be descriptive, as opposed to generic? suggestive? arbitrary?

MR. BYRD: That's – I'm not, I'd hate to be absolutely certain on, on that point. I – obviously it is not. "Crystal" is generic. "Signatures" I do not believe she found to be descriptive.

I, I don't know that she went further and found it to be arbitrary. I think the Court's point there was that you have "crystal signatures," you have "crystal collectables." The only similarity between the two is "crystal." "Crystal" is generic. There is a generic component; there are two other components. Frankly, of the two, the descriptive one seems to be "collectables." But that the only thing you can do is decide can you be "crystal" anything and not conflict with "crystal signatures," given the difference between "signatures" and "collectables."

THE COURT: Right. But don't – I understand you to be arguing that one of the reasons the judge was right about trademark was that there was no secondary – not only was there no secondary meaning shown, the Court didn't even charge on secondary meaning.

MR. BYRD: That, that is correct. They, they suggested that there was a finding of secondary meaning on trademark. But in fact there was no charge on, on secondary meaning in trademark.

THE COURT: But, but if it was suggested that they don't need any, wouldn't that explain why the judge didn't charge on –

MR. BYRD: Well, your Honor, the Court did charge on secondary meaning with respect to trade dress. I think perhaps the Court didn't charge on secondary meaning because it's a

registered mark, and I don't believe that they requested a charge on secondary meaning with respect to trademark.

THE COURT: All right. We'll get you back on rebuttal.

MR. SCHER: May it please the Court, my name is Howard Scher, and I'm appearing here on behalf of Ebeling & Reuss, the plaintiff below, appellee/cross appellant here.

I did not hear the appellant reserve for rebuttal. But in the event there has been a reservation, I would like to reserve two or three minutes on surrebuttal on the cross appeal issues only.

THE COURT: Well, I think we'd like you to say anything you have to say about either of them while you're up there.

MR. SCHER: That's fine. Yes, I will. First let me say that the — this case is a case which involves the destruction of a 100-year-old Philadelphia business. It was a Philadelphia business that had been founded in the 1880s. Its destruction literally, economically, was the result of the actions and conduct on the part of a group of corporations, European Swarovski companies, and an American Swarovski company called Swarovski Company Limited, SAL. It's referred to in many of the documents.

There was sufficient evidence presented to the jury to show that Ebeling & Reuss had staked its financial future on the promises made by the Swarovski defendants, the European Swarovski defendants, and the evidence demonstrated that Swarovski had no intention of keeping its promises when they made them.

Plaintiff's Exhibit 594, and it's in the record at page 4485 in the appendix, the reproduced appendix, has in it paragraph 5. This is a letter that was originally in German and was written from — internally at Swarovski from a Mr. Mignon, Kurt Mignon to a Mr. Helmut Swarovski, both of whom were actors and very significant actors.

In fact, Mr. Mignon came to the courtroom and testified. Mr. Swarovski did not. And Mr. Mignon writes and says "Since we do not wish to exclude the possibility, particularly if this is successful," and that's referring to the exclusive distribution of this product line, "of taking over sales of pressed figures ourselves some day, it is particularly important to inform E&R that our cooperation concerns only the specific series or number

of series stipulated and that from this initial cooperation no claims can be made, that for any future time Swarovski must market its pressed articles, non-cut crystal, through E&R. Helmut, I think this point is particularly important given American law."

That letter was dated in January of 1986. Negotiations ensued which resulted in the agreement. The agreement was to form an exclusive distribution agreement for the Swarovski-manufactured unfaceted crystal figures for the life of the product line with a minimum term of five years.

The evidence of the, of the product line, that is that that was the term, is all – not all over the record, in a number of documents that were presented at trial. And I should comment at this point, while there was testimony, live testimony of Mr. Michael Russo as a fact witness, and of course Mr. Cook, who was the expert on damages and presented no fact evidence, there were 150 documents presented to the jury. The jury had jury books containing the exhibits, as the defense counsel took advantage of that as well.

The jury had 150 Plaintiff's Exhibits before it, when it made its deliberations, while the presentation was made. They had the depositions read from witnesses who were out of the courtroom, Mr. Helmut Swarovski, whose deposition was taken in Austria –

THE COURT: Well, we realize –

MR. SCHER: I'm sorry.

THE COURT: – they had a lot of evidence.

MR. SCHER: Lot of evidence. Okay.

THE COURT: Because the trial went on for some time.

MR. SCHER: Yes, your Honor.

THE COURT: But they say the promise was not exclusivity with respect to the technology, but that every draft of every contract draft that they discussed limited it to figurines designed by E&R.

MR. SCHER: I think it's important to note that the contract was implemented, that it began working, in 1986. In the summer of 1986 Ebeling & Reuss issued purchase order number one. It only issued that after the deal had been struck. That is, there were many writings exchanged between the parties which

said exclusivity, product line, all of the elements that we're talking about here.

THE COURT: What does "product line" mean, in your understanding?

MR. SCHER: The smooth rather than the cut unfaceted crystal figurines that are manufactured by Swarovski. That technology may have uses other than what I just described. We never thought we bought that technology. What we did buy was the Swarovski manufacturing skill in creating uncut, smooth figural objects, fanciful objects. We knew that we had that as our agreement.

If I may continue, your Honor. It was not until June of 1987, we're talking a full year later, that the first draft integrated contract appears. That first draft integrated contract appeared after the Metcalfe letter, after the internal decision to revoke the right to use the name, after Alco Standard Corporation made its only, one and only appearance in this case – in this situation. And then and only then was a draft integrated contract sent to Alco Standard Corporation's counsel, who marked it up. And one thing they did add was a ten-year term. And of course the defendants had no objection to the ten-year term. And it has held there. Swarovski did not sign it. No one ever signed that agreement.

So while that, while that agreement was presented to the jury as being dispositive of any claim of exclusivity, and the defendants argued forcefully that this jury should not return a verdict in favor of Ebeling & Reuss on the exclusivity issue, the jury rejected that argument because it believed that the agreement had been struck in 1986 and it believed that when it saw Plaintiff's Exhibit 71, which is a document that is contained in a supplemental appendix.

And it says, at page 129 SA, in supplemental appendix, the inauguration collection of 50 objects will be expanded by at least 40 new designs a year for the next five years. And that was a document that was presented to the jury, but of course it had been presented to the Swarovskis in Watens, Austria, and they

had specifically approved each and every element of this presentation, as well as another presentation that occurred in October of '86, long before the first draft integrated agreement ever surfaced.

So the draft integrated agreement is evidence, no question, and they used it as much as they could, no question. But it was rejected by the jury; there's no question about that either.

The profit projections, I heard Mr. — I heard some time spent on that, and if I could just respond briefly.

Your Honor, Judge Stapleton, you recently decided the case of American Medical Imaging, which is a fire-loss claim, case involving fire loss. I know you're intimately familiar with it. And what it does is review the kinds of evidence that a claimant for future-profit award can come up with. Obviously there are some limitations on predicting the future. But your Honor commented in that — in that case the plaintiff had made profit projections prior to the loss, and those profit projections were employed by the expert to further project the possible losses that would occur.

And your Honor commented that the quality of that evidence, the quality of those kinds of projections was perhaps higher than the typical projections of an expert who comes in after the harm has been done and tries to reconstruct what might have happened.

Well, those kinds of projections, that is the kind that were made at the time, before the loss occurred, at the time when everyone believed that there would be full cooperation in the relationship between the parties, those projections were made in this case by Mr. Russo. Those projections, those profit projections were presented to the Swarovskis in Watens, Austria at the same time as this other material was presented.

And those projections were adopted by the Swarovskis six months later while they were evaluating what the consequences of repudiation and revocation of the agreement might be. And they said this, this has, this appears to be a very profitable arrangement. These are the profit projections that are anticipated. And it was those profit projections that Mr. Cook employed. But that's not all he employed. And he employed, he employed evidence of, from the industry, he reviewed evidence

from other witnesses, other people on whom he relied on which experts are entitled to rely to develop his profit projections.

He also relied on Disney material and, yes, there was much made of the Disney material and, yes, Mr. Cook did investigate thoroughly financial projections made by the Walt Disney Company as to what they expected the profitability and the expansion of the market of Disney-licensed figurines to be. And he did use that information.

I might note, your Honor, that there is a problem — your Honors, there is a problem in the assembly of the appendix, through no one's fault, but the court reporter had — there was a break in Mr. Cook's testimony that doesn't make any sense of it. It occurs just before lunch and there — it doesn't seem to pick up again. And what happens is that that transcript, Mr. Cook's testimony is disjointed as a result. At page 2371A Mr. Cook's testimony picks up again — it may be 2378, and it's in that direct examination, that's the balance of the direct examination of Mr. Cook that I think perhaps, perhaps some of the confusion exists. It has the full exposition by Mr. Cook as to his investigation.

Mr. — my adversary noted that the loss of Hummel was a grave and devastating loss and suggests that the profit projections were unreasonable since Ebeling & Reuss was seeking to replace what had been reported in a magazine article as the second-most-popular figurine in world history or in American history.

Hummel was the second-most popular, but what my adversary failed to note was that the third-most popular was Swarovski-designed crystal figurines, and the fourth-most popular was products distributed by Ebeling & Reuss.

So what Ebeling & Reuss saw as the replacement of Hummel was the combination of the Swarovski unparalleled design and quality with Ebeling & Reuss' unparalleled distribution skills to create, yes, a replacement for the Hummel line. And the jury was convinced that that success could have been achieved, had the promises which were made been kept.

THE COURT: What about the argument that you're limited, your damages are limited by your license from Disney?

MR. SCHER: Your Honor, the – every profit projection makes projections of the continuation of relationships, except for the relationship between the litigants.

What Tunis is talking about is whether Ford and Tunis could make a profit projection of ten years when Ford and Tunis had an agreement for two or three years. That's what the record indicates. They weren't sure which it was.

It's not a question of whether Mr. Tunis could make a projection as to the continuing availability of supply or outlet for its products with one of its customers. They're talking about Tunis and Ford. That would be had there been an agreement between Ebeling & Reuss and Swarovski which was of two years duration, we could not argue that the duration extended beyond the two years. We could not make profit projections beyond that two-year period.

But that's not the situation here. The Disney contract is merely a bit of evidence as to a basis upon which a future profit projection can be made.

They argued to the jury that they could expect the Disney contract to expire at the end of three years and never be renewed. We offered evidence by deposition testimony of Aviva Gordon from Disney who said it was a wonderful product, it was beautiful, she was dying to have it marketed and it would go on forever, whatever words they used. But they were certainly contrary to an expectation that it would, that the moment the license came to its end, it would be terminated. Certainly that was not a – not the case.

THE COURT: Let's go to – the jury awarded $16.5 million in punitive damages. You would agree with me, I think, that under the controlling law, even where you're talking about a fraud claim, there's got to be fraud plus something –

MR. SCHER: Your Honor –

THE COURT: – in order to recover punitive damages. Now what is the plus here? I mean they were trying to make a buck. Now maybe they cut a corner, but why 16 – if they collected all this money in compensatory damages, 25 mil, what is it that deserves the 16.5?

MR. SCHER: Let me first say, one, there is no question that this record has no directed-verdict motion at the close of

plaintiff's case suggesting an absence of outrageous -- outrageousness element.

The only preservation of the punitive-damage point that could be arguably made is a comment made in the charging conference where defense counsel says "I'd like to reserve the constitutional issue" and the judge says "It's reserved." I don't know exactly what that means, but "the constitutional issue" does not mean there is insufficient evidence of outrageous conduct upon which a punitive damage award can be made.

That would not be adequate under Rule 50, in my estimation. But that's not even here. If you examine the motion for directed verdict and the brief in support thereof, you will find no evidence of a challenge to the quality of the evidence presented on punitive damages. It is unassailable by this Court.

However, after the fraud, the January 28, 1986 letter, after that, that is the fraud. After that, that fraud scheme in the face of Ebeling & Reuss --

THE COURT: I'm sorry, which letter?

MR. SCHER: The first letter I referred to, which was 4485 is the paragraph. It's Plaintiff's Exhibit 594, January 28, 1986, three or four or five months before the contract went into effect. After the contract went into effect -- between the time of that letter and the time the contract went into effect, Swarovski learned that Ebeling & Reuss -- and the jury heard -- was staking its financial future on the distribution of this line. Swarovski learned that Ebeling & Reuss had lost its major product, through no fault of its own, and had a 5,000 -- 14,000-store distribution network available to, to use for another product.

They had choices of other products. They relied on Swarovski's promise that they would have exclusive distribution of this particular product line.

In the face of that, knowing that, Ebeling & Reuss had staked its future on the distribution, the exclusive distribution.

Swarovski went on to, the European Swarovskis went on to, number one, fail to deliver in a timely fashion; number 2, authorized the mailing of the Metcalfe letter. And that Metcalfe letter is nothing if it's not a letter suggesting that Ebeling & Reuss, a 100-year-old Philadelphia distributor, is purveying

counterfeit material. Those words are not used but the implication is clear. You send that to a collector that says there's doubt about the authenticity of these products, a collector will not buy the first in the series of the collection, much less the second.

THE COURT: We're talking about fraud in the inducement of the contract?

MR. SCHER: Yes. That's the fraud. And the outrageous conduct is the implementation.

THE COURT: What's the Metcalfe letter got to do with fraud in the inducement of the contract? I'm missing something.

MR. SCHER: Well, your Honor, the outrageousness, which I submit is not part of this case, but the outrageous conduct is, is the, the extra things that are done to exacerbate and aggravate the fraud that was at the outset. Had they simply reserved to themselves the right to distribute the product, which is what the fraud is, there would have been no punitives, no punitives available.

They simply reserve to themselves, some point in time they announce their intention, We had always intended to reserve to ourselves, You've been defrauded, Good-bye. And that – and under the UCC one would get expectancy damages as well as reliance damages, but that's the end of it. No punitives.

What happened here was more than that. What happened here was, number one, the dependence of Ebeling & Reuss known to Swarovski, number two, the Metcalfe letter. Why, if they had reserved to themselves the right to distribute this product themselves, why did they have to destroy Ebeling & Reuss' credibility in the marketplace by suggesting they were purveying counterfeit material? Why did they have to take the information regarding the possibility of Zales, distribution to Zales, and, and take it for themselves? Why did they employ a negotiating strategy to try to euchre from Ebeling & Reuss the rights that they knew Ebeling & Reuss had through a negotiating strategy, which included this draft integrated agreement.

The draft integrated agreement was part of their negotiating strategy to try to get back from Ebeling & Reuss the right to use the name and to try to confine Ebeling & Reuss to only nine articles or only certain limited articles, rather than the entire figural line.

And then there's the project concept memorandum, it's P-260, I believe, which is a memorandum – which is a document prepared in German. We have the translation. It was presented to the jury, where it shows that the, the Swarovski defendants, the European Swarovski defendants used the know-how provided by Ebeling & Reuss to their own advantage.

So they – this is further in pursuance of their original scheme, which was take back, when it looks like it's going to be a success, let's take it back and use it for ourselves.

These are the kinds of outrageous conduct that, that were evident to the jury and upon which the jury based its punitive-damage award.

And as I point out, the outrageous element of it has been, was eliminated – was not preserved for purposes of appeal.

THE COURT: The trademark claim, why did the judge not charge on secondary meaning?

MR. SCHER: It was a trademarked – "crystal signatures" was trademarked. She concluded that there could not be infringement because the word "crystal" was a generic term and the word "signature" was a generic term and the word "crystal" and "collectables" were generic terms.

But as your Honor, Judge Roth, decided in the Burner case, that Air Door, two terms which are generic separately, put together are no longer generic. And therefore, the judge's reversal of liability on the trademark claim should be reversed. That is, that she took it away from the jury should be reversed. It was not, as a matter of law, improper for the jury to find liability on the trademark claim.

THE COURT: But how could they find secondary meaning without having been charged on it?

MR. SCHER: The – well, your Honor, they –

THE COURT: Your argument, I understand, is that they were charged about secondary meaning with respect to the trade dress.

MR. SCHER: Yes. And they –

THE COURT: And somehow they were supposed to define, you think they divined in their own mind that they were supposed to address secondary meaning in terms of "crystal signatures"?

MR. SCHER: I think they were given evidence on which to base that conclusion, that there was secondary meaning and the — we presented to them two. We presented to them evidence of the secondary meaning, that is the confusion that would result from, from the presentation of the two articles. We just presented to the jury what those two articles looked like, what a crystal collectable knockoff looked like, as compared to a crystal signature figure.

And the confusion as to the source of the, of the material and the other, I think it's *Ford v. Summit* line of evidence that is required in order to show confusing similarity. And we did present evidence in support of that, and I think the jury's verdict is a result of the evidence that we presented.

THE COURT: What exactly was the trade secret?

MR. SCHER: The trade secret — well, we could say the marketing prowess and know-how, but specifically in the project concept memorandum, I'll find it in two seconds, it says Ebeling & Reuss, at page 417 — I'm sorry, 4176A, it says "Ebeling & Reuss gave here unintentional support," meaning they've given us something they didn't realize they were giving to us. In a business reply mail operation Ebeling & Reuss received approximately 8 percent of the cards back; a figure of 2 percent is indicated as a good response.

They'd used our market survey to create their own competitive crystal collectable line. We gave them the results of our market survey, in that P-71 document to which I made reference earlier in the presentation, we made in the fall of 1986, because we were convincing our manufacturer of how effective a distribution job we were doing because we believed we had the exclusive rights to distribute this line and that there would be no use of our information to compete directly against us. We had an expectation of confidence with respect to the provision of that information.

As it turns out, unintentional support was given to Swarovski by the provision of that information, and that is simply trade-secret information that is — I believe it's even within the definition of the statute, the plain meaning of the statute. It is the results of a market survey which shows the receptivity that

this product, theirs being the copy of crystal signatures, would have in the marketplace.

That kind of information is crucial to know in advance of the kickoff of a new product line, and that's the very information that they took from us unwittingly, concededly, knowing that it was unwitting.

If I may turn to the tortious interference claim. Well, first of all, the light's red. May I continue just briefly, your Honor?

THE COURT: We'll give you two or three more minutes. Go ahead.

MR. SCHER: I think the waiver issues are very important in this case. I believe under, under the established law in this circuit, and it is very-well established, I don't need to recite the cases that start with Lowenstein and go up to Fineman.

The failure to file a motion for a directed verdict on the promissory estoppel claim eliminates any possibility that that promissory estoppel claim is not unassailable. That's $25 million plus $850,000 in reliance damages, unquestioned. There is no basis upon which that part of the case can be overturned. An investigation of the contract and its duration and all that other is moot. It will lead to no change in the verdict because the promissory estoppel claim is unassailed.

On tortious interference, your Honor, there was no preservation of any point that would suggest that there is a, a tortious — a corporate veil-piercing doctrine that entitles a defendant who has been accused of perpetrating a wrong to decide to eliminate the veil of its corporations so as to avoid tort liability. There's no case in Pennsylvania that's ever recognized the affirmative use by a defendant of the corporate veil to take on and off to avoid tort liability.

The Kiehl case, the Sams case, all the cases that are cited in our brief are supportive of that proposition, and therefore the Court below — I'm sorry, the District Court, was in error, as a matter of law, in overturning the tortious interference liability determination, as a result of which the $8 million reputation loss needs to be restored to the verdict. And as to the —

THE COURT: I'm going to have to cut you off here. Was there time reserved for rebuttal?

MR. SCHER: Your Honors declined to avail me that opportunity. Thank you. It will take me a second to reassemble.

THE COURT: I do note the clerk is reserving five minutes for rebuttal, but I forgot to tell you.

MR. SCHER: Oh, I see. All right. I didn't realize you weren't directing that question to me.

MR. BYRD: Thank you, your Honor. If I could turn very briefly first to the points as to which we are appellee. With respect to the suggestion that there's, sort of there's no theory of law that permits the related nature of parties to be taken into account in determining liability for tort, that's clearly not true. It's not true in the area of tortious interference.

The cases which they cite, the Kiehl case and the Sams case, Kiehl dealt with the issue in the workers' comp statute in Pennsylvania, whether if someone were an employee of the sub, would the workers' comp prevent him from suing a parent.

The Sams case dealt with the condemnation statutes having to do with whether parents and sub are the same owner of adjacent tracts for various arcane condemnation purposes.

The law of Pennsylvania, as recognized by this Court, is that when it comes to tortious interference, whether parties are related is a legitimate consideration and to whether or not there could be tort liability.

Here, frankly, we have an extremely unusual situation in that the – it was stipulated and it was instructed at plaintiff's behest by the District Court that a single board is the executive authority, the organization that made the decisions for all the corporations that are defendants in this case.

I mean the Court, realizing that, when in the midst of the charge conference she understood finally that plaintiff really did want a charge on, you know, inter-Swarovski tortious interference, she said, Well, how can this possibly be in light of your, your request, your argument that a single board makes all of the decisions for all of the companies? In effect interfering with themselves.

She submitted it anyway, but this was her immediate reaction when she realized that that was what they were asking for. And consequently she entered the N.O.V. on that basis.

With respect to the harmed reputation damages, what that evidence was, the $8 million was apparently, from the testimony, the amount that Alco had invested in E&R, as it was shown on the books of E&R before it was sold.

We have noted to the Court the AM/PM case from the Pennsylvania Supreme Court as to what you have to prove to get loss of reputation damages. You have to prove –

THE COURT: Before it was sold, or before it went into bankruptcy?

MR. BYRD: Before it was sold. It's a Smith Barney report which is being done, I think, as part of the effort to sell it in 1988. For that purpose the – also, there is no evidence that all of that value would have been lost when it went into bankruptcy, because Mr. Slimmer, who was E&R's banker, testified that there was actually enough value in E&R to pay off his $3 million debt at the time of the trial.

But more significantly, it is clear in Pennsylvania that it really is lost sales in other areas that is what you have to prove. They, they cite in their reply brief the Miller oral surgery case for the proposition that you can somehow consider equity value.

In fact, equity value was, as the Court writes in that case, a term used by the expert to describe lost future sales. It's absolutely clear that that's what the law is.

With respect to what trade secret, the trade secret finally comes down to the fact that it was going to be popular. Well, if it was what we took, I guess we're here a little in the, in the status of someone who's a recipient of a false tip.

But it is, in any event, certainly something, the popularity of an item in the industry is something that the selling of it would make clear, if it was true or not.

And it's absolutely clear that if by marketing the stuff you reveal the secret, there is no secret. We have noted in our brief the points at which –

THE COURT: Are you saying a marketing survey can't be a trade secret?

MR. BYRD: I'm not saying the marketing survey can't ever be a trade secret. All we have here is that it looked like from initial response – what they're saying is it looked like from initial responses, from post cards, it was going to be popular.

That's it. I mean not What kind of things do you like? What kind of the – you know, How should we do it? That's a hundred percent of it. That's the whole secret.

And, and that fact as the basis for, you know, an award of any, of any damages, much less 2½ million in punitive, is unjustified. Further, as we note and as the District Court found, there isn't any evidence of actual damages.

They actually sought to reopen the record to put on trade secrets, lost profits, Zales profits damages, the stuff Swarovski got. And the Court said that "The trial's over." They recognized at the time they didn't have any evidence of that in, in the record.

With respect to the trade dress, almost all the money they're talking about, they're expenditures, you know, the cost of producing cases and things like that. There's no evidence of the sort of dissemination of this information to the public such that – and again it's important to remember that the confusion you're talking about is that someone would be confused as to the source of the Swarovski crystal collectables, thinking that it emanated from the same source as crystal signatures.

There is no evidence of identification of the trade dress, and I guess the ultimate irony in this case is the evidence is the trade dress was primarily Swarovski's to begin with, what Swarovski said was and Mr. Russo testified, You use our canisters, You use our foam. It's, it's a bizarre effort in fact to claim a trade dress right on E&R's part and what was Swarovski's to begin with.

Thank you.

THE COURT: Gentlemen, would you go by, on your way out would you go by the clerk's office and arrange for a transcript to be made of this morning's argument to help us in considering this case. You've been most helpful, and it is a large record, and counsel were certainly well prepared, and we appreciate your help.

(Argument concluded.)

IN THE UNITED STATES COURT OF APPEALS
FOR THE THIRD CIRCUIT

Nos. 92-1723 & 92-1746

EBELING & REUSS LTD. t/a
EBELING & REUSS COMPANY,
Plaintiff/Appellee/Cross Appellant,

v.

SWAROVSKI INTERNATIONAL
TRADING CORPORATION A.G.,
D. SWAROVSKI & CO.,
SWAROVSKI AMERICA LIMITED, and
SWAROVSKI AKTIENGESELLSCHAFT
Defendants/Appellants/Cross Appellees.

ANSWER OF APPELLEE/CROSS APPELLANT EBELING & REUSS, LTD. TO PETITION FOR REHEARING AND REHEARING IN BANC

On Appeal from a Final Judgment
of the United States District Court for the
Eastern District of Pennsylvania

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INTRODUCTION

On April 7, 1993, a panel of this Court, composed of Circuit Judges Stapleton, Roth and Lewis, entered a Judgment Order affirming the district court's final judgment entered August 25, 1992 in *Ebeling & Reuss, Ltd. v. Swarovski Int'l Trading Corp.*, Civil Action No. 88-4878 (E.D. Pa.). From this Judgment Order, the defendants in the district court (the "Swarovski defendants") seek rehearing in banc.

Each of the eight issues raised in the Swarovski defendants' appeal at No. 92-1746 concerned either (1) whether sufficient evidence existed to support the jury's verdict or (2) whether the district court correctly applied Pennsylvania law to the facts established at trial.

Federal Rule of Appellate Procedure 35(a) provides that the extraordinary remedy of rehearing in banc "will not be ordered except (1) when consideration by the full court is necessary to secure or maintain uniformity of its decisions, or (2) when the proceeding involves a question of exceptional importance." Fed. R. App. P. 35(a); *see also* 3d Cir. IOP 9.3.1.

This Court's Internal Operating Procedures state that rehearing in banc should not be granted to review a panel's determination that sufficient evidence exists to support a jury's verdict. 3d Cir. IOP 9.3.2. This Court's Internal Operating Procedures also state that rehearing in banc should not be granted where the issue presented is one of state law. 3d Cir. IOP 9.3.3.

Because the Swarovski defendants seek rehearing in banc of a Judgment Order through which the panel rejected their challenges (1) to the sufficiency of the evidence and (2) to the application of Pennsylvania law to the facts of this case, this is not an appropriate matter for rehearing in banc.

As to panel rehearing, it cannot fairly be said that the panel misapprehended or overlooked any point of law or fact. In their petition, the Swarovski defendants revisit many of the arguments presented at length in their briefs on appeal and argued to the panel by defendants' counsel for more than twenty-five minutes during oral argument on March 16, 1993. Because the

panel did not misapprehend or overlook any points of law or fact, no basis for panel rehearing exists. *See* Fed. R. App. P. 40(a).

For these reasons, this Court should deny the petition for rehearing.[1]

ARGUMENT

I. THE PANEL CORRECTLY HELD THAT SUFFICIENT EVIDENCE SUPPORTS THE JURY'S FINDING THAT THE CONTRACT BETWEEN EBELING & REUSS AND THE SWAROVSKI DEPENDANTS HAD A DEFINITE DURATION

In the first of *five* separate arguments as to why rehearing should be granted, the Swarovski defendants erroneously assert that the evidence at trial conclusively proved a contract of indefinite duration between Ebeling & Reuss ("E&R") and the Swarovski defendants. Based upon that mistaken premise, the Swarovski defendants contend that the contract was terminable at will. The Swarovski defendants proceed to argue that the panel "misapplied" three Third Circuit decisions (two of which were not even cited in the briefs on appeal).

The Swarovski defendants' argument misses the point. The panel correctly rejected the terminable at will argument because sufficient evidence supported the jury's finding that the contract between E&R and the Swarovski defendants had a definite duration.

At trial, E&R introduced evidence that the agreement was to last for the life of the product line, defined as the life cycle of the Swarovski-manufactured miniature crystal figurines. *See* App. at 1824-30, 1856-58, 1926. E&R introduced additional

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1. These consolidated appeals mark the second time that this dispute has been before this Court. In 1988, the Swarovski defendants took an appeal to this Court from the district court's entry of a preliminary injunction in Ebeling & Reuss's favor requiring defendants to product twenty-four sample Crystal Signatures Disney character figurines on or before August 30, 1988. This Court affirmed the preliminary injunction in an unpublished decision. *See Ebeling & Reuss, Ltd. v. Swarovski Int'l Trading Corp.*, 866 F.2d 1409 (3d Cir. 1988) (table).

evidence showing that the life of the product line was understood between the parties to mean ten to twelve years, which is comparable to the product cycle of Swarovski's faceted Silver Crystal line. *See* App. at 1812-13, 1857, 2017; Supp. App. at 18. E&R also introduced evidence at trial demonstrating that Dr. Martin Halusa, an official of the Swarovski entities, agreed that ten years was a reasonable duration for the agreement. *See* App. at 1997-99, 4144.

If that were not enough, the jury had evidence before it indicating that the Swarovski defendants agreed to a minimum duration of *at least* five years when they approved, instead of vetoing, E&R marketing materials stating that the product line would consist of at least "forty new pieces a year for the next five years." *See* App. at 1874-83; Supp. App. at 126. Thus, sufficient evidence existed to permit the jury to find that the contract had a definite duration of at least five years, the very duration the Swarovski defendants approved in their review of E&R's marketing materials. *See* Supp. App. at 126.[2]

Only by ignoring key evidence presented to the jury can the Swarovski defendants contend in their rehearing petition that E&R sought to prove a contract that "contained an express term of duration which was inherently indefinite."[3] *See* Petition for Rehearing at 5. This assertion is simply wrong. When the record is viewed in its entirety, as it must be, it is clear that the panel correctly rejected the Swarovski defendants' contention that the contract between E&R and the Swarovski defendants

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2. The Swarovski defendants also attack the duration charge that the district court gave to the jury. For the reasons explained above, this argument lacks merit. Any challenge to the duration charge also is waived, because the Swarovski defendants failed to object to that charge at trial. *See* App. at 3423-33 (objections to charge); *see also* Fed. R. Civ. P. 51 ("[n]o party may assign as error the giving or the failure to give an instruction unless that party objects thereto before the jury retires to consider its verdict, stating distinctly the matter objected to and the grounds of the objection"). If that were not enough, the defendants have waited until their petition for rehearing to advance, for the first time on appeal, any challenge to the jury charge.

3. The argument relies on three lines of testimony at trial to the exclusion of thousands of pages of testimony and documentary evidence that was also before the jury.

was terminable at will. For these reasons, rehearing in banc should not be granted.[4]

II. THE PANEL CORRECTLY REJECTED THE SWAROVSKI DEFENDANTS' STATUTE OF FRAUDS ARGUMENT, WHICH IS BOTH WAIVED AND WITHOUT MERIT

In their second argument in support of rehearing, the Swarovski defendants argue that evidence of a contract between E&R and the Swarovski defendants was insufficient to satisfy the statute of frauds contained in Pennsylvania's Uniform Commercial Code. The Swarovski defendants proceed to argue that the panel's Judgment Order is contrary to this Court's opinion in *Advent Sys. Ltd. v. Unisys Corp.*, 925 F.2d 670 (3d Cir. 1991), where this Court examined the application of that Pennsylvania statute. The Swarovski defendants' argument is both waived and without merit.

At the close of E&R's case-in-chief, the Swarovski defendants filed a motion for a directed verdict.[5] *See* App. at 969-74. Absent from the motion made at the close of E&R's case-in-chief was any suggestion that the contract between the parties ran afoul of the statute of frauds. *See id.*

At the close of all the evidence, the Swarovski defendants, in a written document, renewed their motion for a directed verdict. Simultaneously, trial counsel for the Swarovski defendants orally moved for a directed verdict on the ground that "[t]here is no basis on which a jury could find that there existed any enforceable contract beyond a contract requiring Swarovski to manufacture and deliver the merchandise ordered in 1986

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4. Nor is panel rehearing appropriate, because it cannot be said that the panel overlooked or misapprehended any point of law or fact. This particular issue was presented in the briefs of the parties and was addressed at oral argument. *See* Opening Brief of Swarovski Defendants at pp. 25-29; Response Brief of E&R at pp. 23-26; Reply Brief of Swarovski Defendants at pp. 15-19; Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at pp. 4-7, 27-28.

5. This case was tried to judgment before the amendments took effect renaming the motions governed by Federal Rule of Civil Procedure 50. *Compare* Fed. R. Civ. P. 50 (version in effect through Nov. 30, 1991) *with* Fed. R. Civ. P. 50 (version currently in effect).

under 13 Pennsylvania C.S.A. Section 2201." App. at 3204. The statute counsel cited is Pennsylvania's Uniform Commercial Code statute of frauds, which this Court examined in *Advent.*

This Court has held that a motion for judgment notwithstanding the verdict is the equivalent of a post-verdict renewal of a party's motion for a directed verdict made at the close of the evidence. Thus, the motion for judgment notwithstanding the verdict cannot advance any grounds not set forth in the motion for a directed verdict made at the close of all the evidence. *See Bradford-White Corp. v. Ernst & Whinney,* 872 F.2d 1153, 1161 n.8 (3d Cir.), *cert. denied,* 493 U.S. 993 (1989).

Similarly, this Court has stated that a defendant's motion for a directed verdict made at the close of the evidence is properly viewed as the renewal of the defendant's motion for a directed verdict made at the close of plaintiff's case-in-chief. *See Mallick v. IBEW,* 644 F.2d 228, 233 (3d Cir. 1981). Thus, the motion for a directed verdict made at the close of all the evidence cannot, except in exceptional circumstances not present here, advance specific grounds not asserted in the motion for a directed verdict made at the close of plaintiff's case-in-chief. *See Fineman v. Armstrong World Indus.,* 980 F.2d 171, 184-85 (3d Cir. 1992) (only where claim arises after close of plaintiff's case-in-chief may defendant raise additional specific grounds for a directed verdict at the close of all the evidence), *cert. denied,* 113 S. Ct. 1285 (1993).

At trial, E&R introduced all of its evidence of the terms of its agreement with the Swarovski defendants during E&R's case-in-chief. By failing to move for a directed verdict on the ground of Pennsylvania's statute of frauds at the close of E&R's case-in-chief, the Swarovski defendants had already waived the issue by the time they raised that ground at the close of all the evidence. *See id.*

Even if the Swarovski defendants' statute of frauds argument had not been waived, the argument cannot succeed in light of this Court's ruling in *Advent.* There, this Court held that a non-exclusive requirements contract satisfies the statute of frauds even though no quantity is set forth in writing. *See Advent,* 925 F.2d at 678. Here the district court held the statute of frauds to be satisfied because the evidence introduced at trial

compelled the conclusion that E&R and the Swarovski defendants reached an exclusive requirements contract.[6] *See App.* at 1425.

E&R introduced at trial numerous writings drafted or approved by the Swarovski defendants evidencing the existence of a contract between them and E&R. *See* App. at 1821-34, 3860-64, 3866, 3880, 3886-87, 3904, 3916-17, 3992, 4035-36, 4043, 4050, 4056, 4064-65, 4364. This documentary evidence "leaves no doubt" that the parties intended to create a contract. *Advent*, 925 F.2d at 678. Such evidence was sufficient to satisfy the statute of frauds in *Advent*, *id.*, and it is likewise sufficient to satisfy the statute of frauds here. Thus, it is not the panel's Judgment Order which is in conflict with *Advent;* instead, it is the Swarovski defendants' argument in support of their petition for rehearing.

Because the Swarovski defendants have waived any challenge to the sufficiency of the evidence to satisfy Pennsylvania's statute of frauds, and because sufficient evidence exists to demonstrate that the contract at issue here satisfies the statute, as construed in *Advent*, this Court should deny the Swarovski defendants' petition for rehearing in banc.[7]

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6. In *Advent*, this Court explained why an exclusive requirements contract satisfies the U.C.C.'s statute of frauds:

> For present purposes, the salient factor is that exclusive requirements contracts satisfy the quantity requirements of the statute of frauds, albeit no specific amount is stated.
>
> The reasons for excepting exclusive requirements contracts from the strictures of the statute of frauds are strong. . . . To deny enforceability through a rigid reading of the quantity term in the statute of frauds would run contrary to the basic thrust of the Code—to conform the law to business reality and practices.

Advent, 925 F.2d at 678 (citations omitted).

7. Nor is panel rehearing appropriate, because it cannot be said that the panel overlooked or misapprehended any point of law or fact. This particular issue was clearly presented in the briefs of the parties. *See* Opening Brief of Swarovski Defendants at pp. 32-35; Response Brief of E&R at pp. 28-31; Reply Brief of Swarovski Defendants at pp. 21-23;

III. THE PANEL CORRECTLY HELD THAT SUFFICIENT EVIDENCE SUPPORTS THE JURY'S AWARD OF LOST PROFITS

In their third argument in support of rehearing, the Swarovski defendants contend that insufficient evidence supports the jury's award of lost profits. Specifically, the Swarovski defendants contend: (1) that the Judgment Order affirming E&R's recovery of lost profits for Disney-licensed products violates *Tunis Bros. Co. v. Ford Motor Co.*, 952 F.2d 715, 734-35 (3d Cir. 1991), *cert. denied*, 112 S. Ct. 3034 (1992); and (2) that E&R's evidence of lost profits is insufficient to satisfy the standards this Court discussed in *Advent* and *Tunis Bros*, Neither contention has merit.

A. *The Disney License*

The Swarovski defendants' challenge to the sufficiency of the evidence to support the recovery of lost profits for Disney-licensed products is based upon a misunderstanding of this Court's decision in *Tunis Bros.*

In *Tunis Bros.*, plaintiff sought to recover lost profits from defendant for a ten-year period based upon defendant's fraudulent termination of its franchise agreement with plaintiff. *See* 952 F.2d at 734. However, this Court noted that the evidence introduced at trial in that case supported only one conclusion: defendant's franchise agreement with plaintiff would have lasted just two to three more years. *Id.* at 735. Thus, this Court wrote that "upon remand, the compensatory damages must be limited to that two to three year period of time dating from the 1981 franchise termination." *Id.*

Here, by contrast, the Swarovski defendants seek to limit their liability to E&R for lost profits based upon the length of the initial term of E&R's licensing agreement with Walt Disney Co., a third party.[8] E&R introduced sufficient evidence at trial to permit the jury to determine, as it did, that the relationship between E&R and Disney would have continued far beyond the initial term of the Disney licensing agreement if the Swarovski

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8. The licensing agreement between E&R and Disney permitted E&R to market Swarovski-manufactured pressed crystal figurines depicting Disney characters in exchange for substantial royalties to Disney. *See* App. at 4127-39.

defendants had performed, instead of breaching, their contract with E&R. *See* App. at 1925-27, 2058-60, 2085-86; Supp. App. at 2 (Disney's director of giftware marketing is effusive in her praise of E&R's Disney character crystal figurines).[9]

Again, it is the Swarovski defendants' argument in support of rehearing that is contrary to a decision of this Court. *See American Medical Imagine Corp. v. St. Paul Fire & Marine Ins. Co.*, 949 F.2d 690, 694 (3d Cir. 1991) ("we know of no rule requiring that evidence of lost earnings identify the particular customers and hypothetical transactions that would have produced revenues"). For these reasons, rehearing in banc is not appropriate.[10]

B. *E&R's Damages Expert*

Similarly, E&R's evidence of lost profits is more than sufficient to satisfy the standards this Court discussed in *Advent* and *Tunis Bros.*

In *Advent,* to guide the district court on remand, this Court explained that plaintiff was not entitled to rely upon "rosy predictions" of total industry-wide sales in the marketplace since those estimates had been contradicted by actual industry sales during the years in question. *See Advent,* 925 F.2d at 681.

Here, the Swarovski defendants rely on this Court's reasoning in *Advent* to suggest that the projection of E&R's sales of Swarovski products from 1987 to 1989 (as opposed to industry-wide sales) must be ignored in favor of the sales of Swarovski products E&R actually realized in those years. To apply *Advent* in the manner the Swarovski defendants suggest would permit them to reap the benefit of their own wrongful conduct, in

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9. This Court's actual holding in *Tunis Bros.* is not implicated here. As explained above, E&R introduced evidence that the duration of its contract with the Swarovski defendants was for a period of ten to twelve years. E&R's lost profits projections were limited to that ten- to twelve-year period.

10. Nor is panel rehearing appropriate, because it cannot be said that the panel overlooked or misapprehended any point of law or fact, given the clarity with which this particular issue was presented in the parties' briefs and at oral argument. *See* Opening Brief of Swarovski Defendants at pp. 43-44; Response Brief of E&R at pp. 31-34; Reply Brief of Swarovski Defendants at pp. 26-27; Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at pp. 7-10, 32-33.

violation of Pennsylvania law. *Advent*, as the district court correctly noted, *see* App. at 1427-29, does not so hold.

In January of 1987, six months after performance under the contract had begun, and in breach of the parties' obligations of good faith and fair dealing, the governing body of the Swarovski defendants authorized Lawrence Metcalfe of Swarovski America to send a letter to E&R's retail customers informing them, falsely, that E&R had no right to use the Swarovski name and stating, falsely, that Swarovski had no connection with E&R's Crystal Signatures line. *See* App. at 4038. Helmut Swarovski, a principal of the defendants, admitted that the Metcalfe letter had a negative effect on E&R's ability to market the line. *See* Supp. App. at 23-26, 28-29. In addition, the Swarovski defendants' breach of the agreement by making tardy deliveries in late 1986 and early 1987 of the products E&R had ordered further caused the diminution of E&R's actual sales. *See* App. at 1899-1930.

To adopt the Swarovski defendants' reasoning would be to reward them for the harm they inflicted upon E&R. *Advent* does not compel such a result, which would be contrary to well-settled Pennsylvania law. *See Spang & Co. v. United States Steel Corp.*, 545 A.2d 861, 867 (Pa. 1988) (under Pennsylvania law of damages, wrongdoer must bear the risk of uncertainty that his own wrong has created). Here, E&R's reduced actual sales prove the damage the Swarovski defendants inflicted. The actual sales data certainly do not establish the sales E&R would have generated if the Swarovski defendants had not breached their agreement.

Unlike in *Advent*, there is no evidence here that industry performance contradicted the projections of E&R's damages expert, Stephen Cook of Price Waterhouse.[11] Thus, the Swa-

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11. The Swarovski defendants themselves were in the crystal marketing industry at all relevant times. If actual industry performance had contradicted E&R's projections (which the Swarovski defendants even now do not suggest), the Swarovski defendants certainly had the ability to introduce such evidence. Contrary to the impression the Swarovski defendants seek to create, the estimates E&R relied upon at trial: (1) were considered reasonable by the Swarovski parties before this suit commenced, *See* App. at 1855, 1862-64, 1872-73, 1903-05, 3982; (2) were consistent with the Swarovski parties' own

rovski defendants' assertion that the panel entered its Judgment Order in violation of this Court's decision in *Advent* lacks merit.

The Swarovski defendants also contend that Cook's damages projections were not based on the types of objective evidence that this Court discussed in *Tunis Bros.*, 952 F.2d at 738-39. The Swarovski defendants' contention overlooks a critical portion of Cook's testimony at trial, where he explained that he did not rely solely or uncritically upon E&R's internal profit projections. Instead, Cook undertook exactly the type of inquiry suggested in *Tunis Bros.* Cook assured himself that the lost profit projections he used were objectively reasonable. *See* App. at 2298-2318, 2377-85. If that were not enough, the internal profit projections Cook used were accepted as correct by the Swarovski defendants at the time E&R made the projections, before the Swarovski defendants breached their contract with E&R, and were consistent with the Swarovski defendants' secret projections for their own "knock-off" line. *See* App. at 2378-81, 4153-91.[12]

Only by overlooking Cook's testimony describing the numerous objective factors he relied upon in formulating his lost profit projections, as well as substantial other evidence, can the Swarovski defendants suggest that "E&R's damage testimony is irredeemably speculative and wholly insufficient under the law of this Circuit . . . ." *See* Petition for Rehearing at 9. To the

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NOTES *(Continued)*

secret projections, made without even considering the Disney series, of $19 million in profits over the first three years, *see* App. at 1982-84, 2880-81, 4182-83; Supp. App. at 12-13, 27; and (3) were consistent with Swarovski America's sales of the knock-off "Crystal Collectibles" line, which was not marketed as effectively as E&R had marketed its "Crystal Signatures" line, *see* App. at 3119-22, 3160-61.

12. The Swarovski defendants attempt to ignore all of this evidence, citing only to a chart Cook used at trial to illustrate his lost profit projections, *see* App. at 4527, instead of citing to the testimony Cook delivered at trial in support of how he objectively arrived at the figures reflected on the chart, *see* App. at 2377-85.

contrary, the panel correctly rejected this argument because E&R introduced sufficient evidence supporting the jury's award of lost profits.[13]

The panel's Judgment Order does not conflict with this Court's decisions in *Advent* and *Tunis Bros.* Instead, the Judgment Order is in accord with this Court's decision in *American Medical Imaging*, 949 F.2d at 694, where this Court said: "[i]ndeed, the fact that [plaintiff's lost profit] projections were formulated in the regular course of business prior to the alleged loss may commend them to the trier of fact as more reliable than if they had been prepared after the fact for purposes of litigation." Accordingly, the Swarovski defendants' request for rehearing in banc should be denied.[14]

IV. THE PANEL CORRECTLY UPHELD THE JURY'S PUNITIVE DAMAGE AWARD

In their fourth argument in support of rehearing, the Swarovski defendants contend that the panel's Judgment Order is contrary to decisions of the Second, Fourth and Eleventh Circuits in that the panel is alleged to have allocated "the entire lump-sum punitive damage award to only one of the [two] claims

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13. At oral argument, counsel for the Swarovski defendants conceded that the jury had sufficient evidence to support its award of lost profits. Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at pp. 14-15. Counsel for the Swarovski defendants made clear that his challenge was limited to whether Cook had a sufficient basis for his lost profits projections. *See id.* Such a challenge was unlikely to succeed in the face of *Advent*, where this Court noted that under Pennsylvania law, expert testimony is admissible to prove future lost profits so long as it is "based on anything more than individual opinions or conjecture." 925 F.2d at 681.

14. Nor is panel rehearing appropriate, because it cannot fairly be said that the panel overlooked or misapprehended any point of law or fact. The Swarovski defendants' challenge to the sufficiency of the evidence to support an award of lost profits was discussed in the briefs of the parties and was addressed at oral argument. *See* Opening Brief of Swarovski Defendants at pp. 35-42; Response Brief of E&R at pp. 31-34; Reply Brief of Swarovski Defendants at pp. 23-28; Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at pp. 9-16, 28-32.

on which that award was based . . . ." *See* Petition for Rehearing at 10. Neither premise upon which this argument is based has merit.

E&R's claim for punitive damages arose under Pennsylvania law. None of cases the Swarovski defendants point to from the Second, Fourth or Eleventh Circuits applies Pennsylvania law. Instead, those decisions apply the law of other states. Thus, the Swarovski defendants are mistaken when they say that the panel's Judgment Order gives rise to a circuit conflict.

The panel's decision represents a correct application of Pennsylvania law to the particular circumstances of this case. The Swarovski defendants do not contend otherwise.

The Supreme Court of Pennsylvania explained in *Kirkbride v. Lisbon Contractors, Inc.*, 555 A.2d 800, 803 (Pa. 1989), that under Pennsylvania law the purpose of punitive damages is to "punish a tortfeasor for outrageous conduct and to deter him or others from similar conduct . . . ." Thus, under Pennsylvania law it is not the number of claims that determines the amount of punitive damages that may be awarded; instead, it is the underlying conduct giving rise to a claim for which punitive damages may be awarded.

The district court upheld the jury's finding that the Swarovski entities defrauded E&R Co. The evidence introduced in support of that finding encompassed all of defendants' outrageous conduct that the jury heard about and saw at trial. The Swarovski entities engaged in a single scheme of fraudulent conduct that began before the time they entered into their contract with E&R Co. and ended at the time that E&R Ltd. discovered, after initiating this lawsuit, that the Swarovski entities were themselves actually selling the pressed crystal figurine line, in violation of E&R's exclusive rights in that line. It is this conduct for which the Swarovski defendants remain liable for fraud, and it is this very same conduct (and no other) upon which the jury based its award of punitive damages.[15]

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15. The district court charged the jury that the only claim on which it could return an award of punitive damages was E&R's fraud claim. *See* App. at 3580.

Because the panel's decision represents an unchallenged, proper application of Pennsylvania law, and because the Swarovski defendants' assertion of a circuit conflict is specious, the Swarovski defendants' petition for rehearing in banc should be denied.[16]

V. THE PANEL'S JUDGMENT ORDER IS NOT CONTRARY TO THIS COURT'S INTERNAL OPERATING PROCEDURES

In their final argument as to why rehearing should be granted, the Swarovski defendants contend that the panel's disposition of this appeal by means of a Judgment Order somehow violates this Court's Internal Operating Procedures. This argument is utterly devoid of merit.

Chapter 6 of this Court's Internal Operating Procedures governs the use of a Judgment Order. Third Circuit IOP 6.2.1 provides in pertinent part: "[a] judgment order is filed when the panel unanimously determines to affirm the judgment or order of the district court . . . and determines that a written opinion will have no precedential or institutional value." Third Circuit IOP 6.2.2 provides in pertinent part that a Judgment Order may be used when: "(b) Sufficient evidence supports a jury verdict; . . . (d) No error of law appears; . . . ."

As explained above, the Swarovski defendant's appeal at No. 92-1746 challenged the sufficiency of the evidence to support the jury's verdict and the application of Pennsylvania law to the facts the jury found. In their petition for rehearing, the Swarovski defendants fail to point to any question of first impression presented in their appeal. Instead, the Swarovski defendants are left to suggest that this case would be of precedential value in illustrating the application of existing

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16. Nor is panel rehearing appropriate, because it cannot fairly be said that the panel overlooked or misapprehended any point of law or fact. This challenge to the jury's award of punitive damages was addressed in the briefs and discussed at oral argument. *See* Opening Brief of Swarovski Defendants at pp. 44-46; Response Brief of E&R at pp. 35-37; Reply Brief of Swarovski Defendants at pp. 28-30; Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at pp. 19, 33-39.

precedent to the facts of this case. If that were the standard governing the use of Judgment Orders, no appeal could ever be decided in that manner.

Dismayed by the panel's ruling affirming the district court's final judgment,[17] the basis of which the district court explained in a seventy-five page unpublished opinion, *see* App. at 1394-1468, the Swarovski defendants are relegated to impugning the integrity of the judges on the panel. While any litigant with ink and paper has the ability to suggest that three distinguished Circuit Judges of this Court improperly used a Judgment Order to "conceal divisive or disturbing issues," *see* Petition for Rehearing at 12, the petition for rehearing falls far short of substantiating such a grave assertion.

Lastly, the Swarovski defendants suggest that a Judgment Order may not be used to affirm an award of punitive damages. To the contrary, under this Court's Internal Operating Procedures, a Judgment Order may be so used. Judgment Orders are even utilized to affirm judgments of conviction and sentence in criminal cases, where a defendant's liberty is at stake. *See United States v. Baynes*, 548 F.2d 481, 482-84 (3d Cir. 1977) (per curiam) (rejecting due process challenge to affirmance of conviction by Judgment Order).[18]

In any event, the Swarovski defendants have admitted that they failed to preserve a due process challenge to the jury's award of punitive damages. In their forty-nine page opening brief on appeal, the Swarovski defendants did not advance a due process challenge to the jury's award of punitive damages or even cite to the Supreme court's opinion in *Pacific Mut. Life Ins.*

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17. It deserves to be noted that the Judgment Order also upholds those portions of the district court's final judgment that set aside the jury's verdict in E&R's favor on E&R's claims of tortious interference, unfair competition and trade secret theft, which resulted in setting aside $13,291,364.00 in damages. Mindful of this Court's admonition that rehearing will not be granted to review a Judgment Order, E&R has not sought rehearing of the panel's affirmance of these portions of the district court's final judgment, from which E&R had appealed.

18. In *Taylor v. McKeithen*, 407 U.S. 191, 194 n.4 (1972) (per curiam), the Supreme Court wrote: "[w]e, of course, agree that the courts of appeals should have wide latitude in their decisions of whether or how to write opinions. That is especially true with respect to summary affirmances."

Co. v. Haslip, 111 S. Ct. 1032 (1991). Instead, the Swarovski defendants opted in their opening brief to challenge the sufficiency of the evidence to support the fraud claim that gave rise to punitive damages and the sufficiency of the evidence of outrageous conduct to support *any* award of punitive damages.[19]

The due process challenge advanced in the petition for rehearing was not raised on appeal until the Swarovski defendants' reply brief. *Compare* Swarovski Defendants' Opening Brief at pp. 46-48 *with* Swarovski Defendants' Reply Brief at pp. 31-32 and Petition for Rehearing at pp. 12-14. Thus, the Swarovski defendants have forever waived any due process challenge they may have had. *See Browning-Ferris Indus. v. Kelco Disposal, Inc.,* 492 U.S. 257, 277 & n.23 (1989) (due process challenge to award of punitive damages waived for failure to preserve issue at necessary points in proceedings below); *McLendon v. Continental Can Co.,* 908 F.2d 1171, 1183 (3d Cir. 1990) ("[s]ince the reply brief is the final written word from appellate parties without leave of the court, R. App. P. 28(c), it would be manifestly unfair to permit an appellant to interject issues to which the appellee cannot now respond").[20]

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19. In footnote 12 of their rehearing petition, the Swarovski defendants cite two Third Circuit cases for the proposition that clear and convincing evidence of outrageous conduct is required before punitive damages may be imposed. Any challenge to the sufficiency of the evidence to support an award of punitive damages was waived at trial, as the Swarovski defendants never raised such a sufficiency challenge in their directed verdict motions. Even if the point were not waived, the cases the Swarovski defendants cite do not apply to actions governed by Pennsylvania law. The two cases, *Acosta v. Honda Motor Co.,* 717 F.2d 828 (3d Cir. 1983), and *Dunn v. HOVIC,* No. 91-3837 (3d Cir. Sept. 18, 1992), *vacated upon grant of reh'g in banc,* (3d Cir. Oct. 8, 1992), both arose under Virgin Islands law. Under Virgin Islands law, clear and convincing evidence is the standard of proof applicable to outrageous conduct to support an award of punitive damages. Under Pennsylvania law, which governs this action, this Court has held that a plaintiff "must show outrageous conduct by a preponderance of the evidence." *Hughes v. Consol-Pennsylvania Coal Co.,* 945 F.2d 594, 616 (3d Cir. 1991), *cert. denied,* 112 S. Ct. 2300 (1992). In their rehearing petition, the Swarovski defendants do not challenge E&R's ability to satisfy the preponderance of the evidence standard of proof; in fact, such a challenge would clearly lack merit.

20. *See also Yakus v. United States,* 321 U.S. 414, 444 (1944) ("No procedural principle is more familiar to this Court than that a constitutional

Before the panel, the Swarovski defendants conceded that they waited too long to assert a *Haslip* challenge on appeal. *See* Transcript of 3d Cir. Oral Argument in Nos. 92-1723 & 92-1746 at p. 20; Swarovski Defendants' Response Filed Dec. 24, 1992 to Motion to Strike at p. 3.[21]

The panel did not violate this Court's Internal Operating Procedures when it affirmed by Judgment Order the final judgment of the district court.

NOTES *(Continued)*

right may be forfeited in criminal as well as civil cases by the failure to make timely assertion of the right before a tribunal having jurisdiction to determine it.").

21. An additional point deserves response. As explained above in the text, an inquiry into the proportionality of the punitive damages awarded to the net worth of the Swarovski defendants is foreclosed by waiver. Even if that point were not foreclosed, the Swarovski defendants have never come forward with their actual net worth, which is the inquiry required under the Alabama scheme upheld in *Haslip*, 111 S. Ct. at 1044-45. The stipulation reached at trial was that the Swarovski defendants had a net worth of *in excess of* $200 million. *See* App. at 3517-18, 3528. This stipulation does not minimize the likelihood that the ratio of punitive damages to the Swarovski defendants' actual net worth is around 1%, or even lower. *See Cash v. Beltmann N. Am. Co.*, 900 F.2d 109, 111 n.3 (7th Cir. 1990) (suggesting typical ratio of punitive damages to a defendant's actual net worth).

CONCLUSION

For all the foregoing reasons, this Court should deny the petition for rehearing.

Respectfully submitted,

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Dated: May 5, 1993

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No. 92-2041

In The

Supreme Court of the United States

October Term, 1993

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., SWAROVSKI MANAGEMENT AND CONSULTING, A.G., D. SWAROVSKI & CO., SWAROVSKI AKTIENGESELLSCHAFT, and SWAROVSKI AMERICAN LIMITED,

Petitioners,

v.

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Third Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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No. 92-204

In The

Supreme Court of the United States

October Term, 1993

SWAROVSKI INTERNATIONAL TRADING CORPORATION, A.G., SWAROVSKI MANAGEMENT AND CONSULTING, A.G., D. SWAROVSKI & CO., SWAROVSKI AKTIENGESELLSCHAFT, and SWAROVSKI AMERICAN LIMITED,

Petitioners,

v.

EBELING & REUSS, LTD. t/a EBELING & REUSS COMPANY,

Respondent.

Petition For Writ Of Certiorari To The United States Court Of Appeals For The Third Circuit

REPLY BRIEF IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

Petitioners Swarovski International Trading Corporation, A.G.; Swarovski Management and Consulting, A.G.[1]; D. Swarovski & Co.; Swarovski Aktiengesellschaft;

[1] Swarovski Management & Consulting, A.G. is the former name of Petitioner D. Swarovski & Co. Respondent brought suit against the company under both names, although judgment was entered against it solely under the name of D. Swarovski & Co.

and Swarovski America Limited (collectively "Swarovski") respectfully request that the Court grant the Petition for a Writ of Certiorari to review the judgment order of the United States Court of Appeals for the Third Circuit entered on April 7, 1993. None of the arguments advanced by Respondent in its Brief In Opposition justifies denial of the writ here. Indeed, Respondent's Brief is based on serious misapprehensions, if not outright distortions, of the law and the facts.

STATEMENT OF THE CASE

In the statement of the case contained in its Brief in Opposition, Ebeling & Reuss ("E&R") makes a number of errors that bear on the disposition of Swarovski's Petition for Writ of Certiorari. This is evidently done out of a license E&R feels that it has as a result of prevailing in the lower courts. However, victory below does not relieve E&R of its obligation to this Court.

Hence, contrary to E&R's assertion, *see* Brief in Opposition at 4, the early 1987 letter by Lawrence Metcalfe, President of Swarovski America Limited, was sent to Swarovski America Limited's own customers, not to the customers of E&R. *See* Rec. 4038. This misstatement is significant in light of the fact that this letter was the sole act of outrageous conduct identified by counsel for E&R, at oral argument before the Third Circuit, in support of the award of $16.5 million in punitive damages in this case. *See* Resp. App. 36-39. In addition, Swarovski had not, as E&R suggests, "secretly resolved to revoke E&R's

right to use the [Swarovski] name." *See* Brief in Opposition at 5. To the contrary, what the evidence at trial showed was that although Swarovski wanted E&R to stop using the name, and openly negotiated with E&R towards that end, Swarovski nevertheless took no action to prevent E&R's use of the Swarovski name until June 1988, when it sent a termination letter to E&R. *See* Rec. 2853; 2875-76. Equally unjustified is E&R's statement that it was forced into bankruptcy by reason of actions of Swarovski (there has never been any finding on this). *See* Brief in Opposition at 3. The Swarovski Petitioners do not want to argue facts at this late stage, but nonetheless believe that it is important to allow the Court to decide this Petition on a fair presentation of the case.

REASONS FOR GRANTING THE WRIT

In its Brief in Opposition, E&R raises a number of points in connection with the questions presented for review in Swarovski's Petition for a Writ of Certiorari. As demonstrated below, these points do not adequately explain the issues raised by the Third Circuit's disposition of this matter, nor do they provide reasons for declining to grant Swarovski's Petition for a Writ of Certiorari.

A. The District Court Improperly Allocated the Entire Punitive Damage Award to the One Affirmed Claim of Fraud

In the first question presented to the Court, the Swarovski Petitioners demonstrated that the Third

Circuit's affirmance of the district court's allocation of the punitive damages award creates a conflict between the Circuits. In response, E&R argues that the Third Circuit's decision, and presumably that of the district court, represents a correct application of *state* law. *See* Brief in Opposition at 15. In support of this assertion, E&R cites to this Court's decision in *Browning-Ferris Industries v. Kelco Disposal, Inc.*, 492 U.S. 257, 278 (1989), in which the Court held that the propriety of an award of punitive damages for the conduct in question, and the factors the jury may consider in determining their amount, are questions of state law.

E&R's reliance on *Browning-Ferris* is entirely misplaced. The first question presented in Swarovski's Petition for Writ of Certiorari deals with neither the *propriety* of an award of punitive damages, nor the *factors* the jury may consider in determining their amount. To the contrary, this question relates to the proper disposition by a federal court of an already determined punitive damage award when one or more of the claims underlying that award are later determined not to state a cause of action. Such a question is necessarily one of federal law. *See Williams v. Powers*, 135 F.2d 153, 156 (6th Cir. 1943); 9 Charles A. Wright & Arthur R. Miller, *Federal Practice & Procedure*, Civil § 2502 (1971). Indeed, this question has been treated as one of federal procedure by the Second, Fourth and Eleventh Circuits in analogous contexts. *See Murphy Door Bed Co. v. Interior Sleep Sys., Inc.*, 874 F.2d 95, 104 (2d Cir. 1989); *Litman v. Massachusetts Mutual Life Ins. Co.*, 739 F.2d 1549, 1562 (11th Cir. 1984); *Barnes Group, Inc. v. C & C Prods., Inc.*, 716 F.2d 1023, 1034 (4th Cir. 1983).

Moreover, in contrast to the position asserted by E&R, *see* Brief in Opposition at 16, the Third Circuit's affirmance in this matter is in no way in accord with this Court's decision in *Zant v. Stephens*, 462 U.S. 862 (1983). In *Zant*, the Court examined whether the Fifth Circuit erred in vacating the death sentence imposed on respondent. The Fifth Circuit in that case had vacated the respondent's sentence because one of several statutory aggravating circumstances that the jury expressly found was later declared to be unconstitutionally vague. Significantly, the jury in *Zant* had made explicit findings on *each* of these separate aggravating circumstances, each of which was itself sufficient to support the imposition of the death sentence.

Based on these facts, this Court reversed the Fifth Circuit's judgment on the ground that the case was not governed by the "rule derived from the *Stromberg* case . . . that a general verdict must be set aside if the jury was instructed that it could rely on any of two or more independent grounds, and one of these grounds is insufficient." 462 U.S. at 881. Continuing, the Court observed that the cases to which the *Stromberg* rule had been applied "all involved general verdicts based on a record that left the reviewing court uncertain as to the actual ground on which the jury's decision rested." *Id.* Based on this understanding of the scope and application of the decision in *Stromberg v. California*, 283 U.S. 359 (1931), the Court in *Zant* held that *Stromberg* did not require vacation of the respondent's death sentence "because the jury did not merely return a general verdict stating that it had found at least one aggravating circumstance. The jury expressly found aggravating circumstances that were valid and legally sufficient to support the death penalty." *Id.*

In contrast to the *Zant* case, the facts of this case fall within the clear confines of the *Stromberg* rule. Here, the jury returned a general verdict of fraud against Swarovski and gave a single award of punitive damages. This general verdict, both on liability and punitive damages, was premised on five separate and distinct acts of fraud which E&R claimed and argued to the jury. *See* Rec. 3253-56; 3337-41. However, the jury did not, as in *Zant*, make specific findings as to which of the five separate claims of fraud Plaintiff's general finding was based on; nor did it allocate the punitive damages among the fraud claims. This omission is significant because the district court's subsequent disallowance of all but one of the five claims, and the Third Circuit's affirmance of that decision, makes it impossible to determine whether the sole affirmed act of fraud is in fact the conduct which the jury sought to punish with the award of punitive damages. This impossibility goes to the heart of the *Stromberg* rule, and has been recognized by a number of federal circuit courts of appeal in virtually identical factual situations. *See Murphy Door*, 874 F.2d at 104; *Litman*, 739 F.2d at 1562; *Barnes Group*, 716 F.2d at 1034.

B. The Third Circuit's Affirmance of the $16,500,000 Punitive Damage Award Without Opinion Violates Swarovski's Procedural Due Process Rights.

In *Pacific Mutual Life Ins. Co. v. Haslip*, 499 U.S. 1 (1992), this Court made it clear that appellate courts reviewing judgments for punitive damages are constitutionally obligated to make an independent review of the punitive damage award, both as to whether the evidence

supports such an award in any amount, and if so, whether the amount awarded is greater than that reasonably necessary to punish and deter.

More recently, in *TXO Production Corp. v. Alliance Resources Corp.*, 61 U.S.L.W. 4766 (U.S. June 25, 1993), the Court again recognized the critical nature of appellate review to the constitutionality of an award of punitive damages. As the plurality opinion in *TXO* states, the written opinion of the West Virginia Supreme Court of Appeals "gave careful attention to the relevant precedents." 61 U.S.C.W. 4766.[2]

In this case, the critical component of appellate review is entirely lacking. Despite the staggering absolute size of the punitive damage award, the Third Circuit failed to write one word explaining why punitive damages were warranted, and why the $16,500,000 amount was not unreasonably excessive.[3] Although the absence

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[2] It bears noting that at least seven Justices in *TXO* required some sort of meaningful appellate articulation. Four Justices concluded that the West Virginia Supreme Court had sufficiently stated its reasons to constitute adequate appellate review, while the three dissenting Justices felt the lower court did not adequately articulate its reasons for affirmance.

[3] Contrary to Respondent's assertion, *see* Brief in Opposition at 21, there is no question here of Petitioners having "waited too long" to challenge the substantive excessiveness of the punitive damage award, as well as the procedure by which it was affirmed. It should be noted in this regard that the "Motion to Strike" which Respondent filed in the Third Circuit was *denied* and that Petitioners, from the time the $16.5 million verdict was returned by the jury, have argued that it was excessive and that the trial court reached the "wrong result" substantively in entering judgment for that amount. *See* Resp. App. at 30.

of a written decision does not establish conclusively the absence of appellate review, it does insulate any presumed "appellate review" from meaningful scrutiny and make it significantly easier, through silence, to affirm while avoiding defense of the indefensible. Moreover, the very process of having to give reasons for a decision can reveal a lack of justification for that decision to the deciding court.

Because the Third Circuit failed to give reasons for its decision, it is impossible to ensure that its disposition of this case comports with the standards set forth in *Haslip* and *TXO*, as well as those that govern the award of punitive damages under state law. Put simply, the Third Circuit's failure to write an opinion makes it impossible to determine whether it conducted any appellate review of the punitive damage award, and if it did, under what standard the review was conducted. The procedure employed below does not satisfy this Court's standard as it can be determined from *Haslip* and *TXO*.

Moreover, contrary to Respondent's suggestion, a requirement that an appellate court state its reasons for affirming a $16.5 million punitive damage award will not, as a matter of due process, require written opinions in all contexts, including criminal affirmances. This Court recognized in *Haslip* that additional constitutional protections, like appellate court articulation of reasons for affirmance, were necessary in punitive damage cases precisely because the sorts of constitutional safeguards and limits available in other "punitive" contexts, most particularly criminal cases, were not applicable in civil trials for punitive damages – although the consequences could be equally, if not more, crushing to the defendant. Hence,

a defendant in a private civil suit faced with punitive damages will lack the protection of a clearly established, pre-existing standard for such liability, a set range of punishments, the "beyond a reasonable doubt" standard for liability, the requirement of a unanimous jury and the limits on fines imposed by the Eighth Amendment. *See Browning-Ferris*, 492 U.S at 275-76. In a largely standard-less area of severe punishment, the necessity that an appellate court at least be required to explain its actions in upholding penalties every bit as severe as those for which the greater safeguards of criminal procedure exist, is one of the civil defendant's few protections.

CONCLUSION

For the reasons set out above, the Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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